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AMENDING THE HIGHER EDUCATION ACT OF 1965

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Mr. KENNEDY, from the Committee on Labor and Human Resources, submitted the following

REPORT

[To accompany S. 2647]

The Committee on Labor and Human Resources, to which was referred the bill (S. 2647) to amend the Higher Education Act of 1965 to reduce the default rate on student loans under that Act, and for other purposes, having considered an amendment in the nature of a substitute, reports favorably thereon and recommends that the amendment pass.

I. INTRODUCTION

The costs of defaults in the Stafford Student Loan Program have increased dramatically over the last several years. In fiscal year 1988, costs of defaults could well exceed $1.6 billion. For fiscal year 1990, it is estimated that this figure could rise to $2 billion.

This trend reflects, to a large part, the overall growth in student loan volume that has taken place since 1978. During this period, student borrowing to finance a postsecondary education has increased fourfold, from $2 billion to $9.1 billion.

S. 2647 attempts to insure the health and vitality of the Stafford Student Loan Program by reducing the costs of defaults. At the same time, the committee also wants to insure continued access to loans for needy and deserving students by protecting the integrity of these valuable student aid programs.

II. PURPOSE AND SUMMARY

The purpose of this bill is to reduce the incidence of defaults in the Stafford Student Loan Program, and in so doing to reduce the cost of such defaults for the federal government. It is the view of

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the Committee that this goal can best be accomplished if federal law promotes better communication and cooperation among the various participants in the loan program, namely the U.S. Department of Education, guaranty agencies, lenders and holders of student loans, institutions of higher education, and borrowers.

Toward this end, Title I of the bill provides for the establishment of default management plans for guaranty agencies, lenders and holders, and institutions of higher education with default rates in excess of 25 percent. Also, the practices of each guaranty agency and each higher education institution in the top 5 percent of defaulted loans nationwide, measured by dollar volume, will be reviewed to determine its need to establish a default management plan. Such plans would be tailored to the specific characteristics of each entity and focus efforts on measures it can take to reduce defaults.

For this purpose, the bill requires the Secretary of Education to collect and tabulate information on studuent loan defaults and to publish a default rate for each participating school, lender and guaranty agency. The default rate used to determine eligibility for a default management plan is to be the average of the default rate for loans that went into repayment over three separate years. Each year's calculation includes any recoveries made during the first two years of repayment. Each loan is also to be attributed to the default rate calculation of the institution that the student was attending at the time the loan was made.

Title II of the bill provides for better loan collection procedures. Among the activities provided for are the withholding of defaulters' academic transcripts, the collection of additional borrower information, credit checks on prospective PLUS loan borrowers, restrictions on institutional promotional activities, notification to credit bureaus of the names of borrowers after 90 days of delinquency on any loan payment, use of State licensing information, and improved notification of loan status and loan sales and transfers.

Title II also provides for a 5 percent administrative fee on SLS and PLUS loans, a prohibition on the sale of student loan lists, limitations on loan consolidation for students in programs of less than twelve months' duration, a study of the discharge of Stafford loans in bankruptcy, and restrictions on the use of contractors in the loan program.

Title III places new responsibilities upon the Department of Education. Among these are special rules limiting accreditation for schools that have had their acceditation withdrawn, the establishment of a toll-free consumer hotline and refund policy for students reporting fraud and abuse by institutions, a date certain for the establishment of the National Student Loan Data System and the annual publication of default rates by the Secretary.

The bill also makes several important changes in needs analysis. Foremost is the elimination of consideration of home and farm equity and small business assets for families with adjusted gross incomes below $30,000. Current requirements have placed many families of very modest means in the difficult position of beging expected to borrow against the equity in their homes, farms or businesses to send their children to college, even though their families' in-

comes are not sufficient to enable them to repay such loans if they obtain them.

The bill also modifies the consideration of veterans' benefits so that all veterans' educational benefits are considered as resources when determining eligibility for Title IV student aid. Other adjustments include reducing from 70 percent to 50 percent the amount of earnings a dependent student is expected to save for educational purposes, eliminating the double-counting of income that is saved for future educational expenses, simplification of the definition of independent student, modification of the computation of veterans' benefits, and clarification of the definition of several family-members-in-college provisions.

Other higher education amendments include modifications in the composition of the Student Loan Marketing Association's Board of Directors and conversion of all its current shares of stock to a single class of voting common stock, adjustments in the awarding of contracts for Multiple Data Entry processors, the elimination of the Notice of Federal Student Aid Receipt and enactment of new Federal audit procedures for higher education institutions.

III. History of Legislation

On December 11 and 18, 1987, the Subcommittee on Education, Arts, and Humanities conducted hearings on the growing problem of defaults in the Stafford Loan Program. Among the witnesses were the Secretary of Education and representatives of various participants in the loan program, including guaranty agencies, lenders, and institutions of higher education.

On July 14, 1988, Senators Pell, Stafford, Simon, Hatch, Dodd, Wicker, Kennedy, Mikulski, Matsunaga, and Metzenbaum introduced S. 2647. The measure was based upon the many suggestions submitted to the Subcommittee on Education, Arts, and Humanities through the December hearings and in subsequent letters and meetings. It was also the product of many hours of hard work by the staff of the Subcommittee on Education, Arts, and Humanities. The bill was referred to the Committee on Labor and Human Resources.

On August 10, 1988, the full Committee on Labor and Human Resources voted out an amendment in the nature of a substitute to S. 2647. The amendment incorporates many changes suggested by various parts of the higher education community in order to improve provisions of the original bill.

IV. Background and Description

The Higher Education Act was reauthorized in 1986. Included in the reauthorization were many provisions aimed at tackling the default problem. The 1986 Amendments required checks to be cosigned by the student and the institution. It stipulated that checks be disbursed in at least two installments. And it made certain that student loan borrowers were reported to credit bureaus so that their loan status could be considered when they applied for a credit card, an automobile loan, or some other source of credit.

The Amendments strengthened the limitation, suspension and termination provisions in law to crack down on institutions with

high default rates. It stopped the infusion of new Federal dollars to institutions with Perkins Loan default rates in excess of 15 percent.

Provisions were included mandating loan counseling by schools so that students would better understand the obligations of borrowing. Requirements were tightened for Ability-to-Benefit Students. Loan consolidation was permitted for borrowers whose loan debt was so large that they needed to stretch repayment over a longer period of time in order to avoid default. Deferments were extended for those temporarily unable to undertake immediate repayment of their loans. The legislation also strengthened the Secretary's collection powers.

Many of these and other provisions in the Amendments to reduce defaults are just now beginning to take effect and the Committee anticipates that they will produce results.

Unfortunately, new information on the magnitude of the default problem that became available in 1987 points towards a need to take even stronger legislative action. The costs of defaults in the Stafford Student Loan Program have increased dramatically over the last several years. In fiscal year 1988, the costs of defaults could well exceed $1.6 billion compared to a cost of $224 million in fiscal year 1978. And, by 1990, it is estimated that this figure could rise to $2 billion.

This trend parallels the growth in overall student loan volume that has taken place since 1978. During this period of time, student borrowing has increased more than fourfold, from $2 billion to $9.1 billion. This increase in borrowing has resulted, in part, from the success of previous changes to the Higher Education Act designed to provide greater access to loans for qualified students.

The increase in volume also results from rising college costs. Since 1980, college costs have risen 77 percent nationwide. The plain fact is that the rising price of a postsecondary education has far outstripped the very modest increases in Federal student aid achieved during the same period. For example, in 1980 a maximum Pell Grant award of $1750 covered 41 percent of the average tuition bill. Today a maximum Pell Grant of $2200 covers only 29 percent of such cost.

The Committee is very concerned that increased borrowing is having a severe impact on career choices, as well as saddling students with enormous debts. Loans accounted for 17 percent of student aid in 1975–76, but in 1986–87 they accounted for 49 percent.

Such trends, however, do not lessen the Committee's concern over the default problem or the responsibility students have to meet their obligations to the Nation's taxpayers.

Title I of S. 2647 provides for the establishment of default management plans for guaranty agencies, lenders and holders, and institutions of higher education with default rates in excess of 25 percent. Also, the practices of each guaranty agency and each higher education institution in the top 5 percent of defaulted student loans, measured by dollar value, will be reviewed to determine its need to establish a default management plan. It is the Committee's view that such plans will help reduce the incidence of defaults by focusing the efforts of each such agency, lender, or school on those factors that are contributing to its high level of defaults.

S. 2647 contains a list of provisions that may be imposed on each entity under a default management plan. It is the intent of the Committee that other provisions be included in plans, and that the list included in the legislation is not, therefore, an exhaustive one. Any additional provisions would be agreed to by both the party overseeing the plan and the party for whom the plan is designed.

It is also the intent of the Committee that each plan be designed to the specific needs of the individual guaranty agency, lender, or institution for whom such a plan is mandated. For example, if a guaranty agency were to determine that the primary reason a school had a high incidence of default was because it had a large number of low-income students, that school's default management plan might focus upon the development of activities designed to help lower-income students meet their loan obligations.

In determining the exact contents of any default management plan, each guaranty agency—or, in the case of a guaranty agency, the Department of Education—should review, in advance, the operations of the appropriate agency, institution, or lender to determine which provisions would be most effective for its particular needs. This evaluation of operations should focus upon those aspects that relate to the administration of Title IV programs and/or are relevant to the incidence of defaults. Such a review should be done in consultation and cooperation with the affected party.

S. 2647 also mandates an evaluation of operations for any school that is among the top 5 percent nationwide by dollar value of institutions in default. If the evaluation indicates that the manner in which the school is administering the loan program is contributing to default costs, then the school must also enter into a default management plan. This same provision applies to guaranty agencies in the top 5 percent of dollar volume in default, except that such agencies shall be subject to a program review by the Department of Education prior to the institution of a default management plan.

It is the intent of the Committee that default management plans be conducted by the guaranty agency for the state in which the lender or school is located or, in the case of a guaranty agency, by the Department of Education. This provision is in keeping with the view of the Committee that better communication among program participants is an integral part of default reduction in the Stafford Student Loan Program. Should a lender or school have a significant portion of its loans guaranteed by an agency other than the designated guarantor for the state, the designated guarantor may transfer its responsibility to another agency.

In the case of lenders with large national portfolios, it is left to the Secretary to determine which party or parties are best suited to oversee development of the plan. The Secretary may assign this responsibility to a particular guaranty agency or agencies or retain this responsibility for himself. In the case of the Student Loan Marketing Association (Sallie Mae), the Secretary must conduct both the review and oversee implementation of the plan.

The bill also authorizes the appropriate guaranty agency to recommend to the Secretary of Education the initiation of limitation, suspension and termination (LS&T) proceedings against an institution or lender. The authority of the guaranty agency in arriving at this decision is considerable and the agency's decision should pri-

marily be based on information and knowledge acquired from data and its own evaluation of the agency. The Committee does believe that some guidance—as to the basis for making such a judgement—is appropriate and should be provided to the guaranty agencies. This is especially true given the weighty nature of the decisions and the consequences for students and the postsecondary community. Congress should provide some direction to the guaranty agencies in the form of factors which should be considered or basic criteria for evaluating institutional effort to implement its default management plan.

The five factors attempt to provide that direction by establishing statutory factors to be considered in arriving at the guaranty agency's decision. These five factors do not represent an exclusive list, nor will each of them be appropriate in every case.

The five factors are:

the progress made by the institution in reducing the number or dollar value of defaulted loans in each of the 3 years covered by the default management plan;

the employment status of the borrower at the time the default occurred;

the socio-economic status of the students served by the institution as indicated by the Pell Grant eligibility index of those student borrowers in default;

the presence of significant numbers of ability-to-benefit students among the borrowers in default and a demonstrated institutional record of successfully educating or training such students; and

the economic health and general state of employment in the region.

In any case in which a guaranty agency does not recommend limitation, suspension or termination to the Secretary at the end of the three year period and that school or lender continues to have a default rate in excess of 25 percent, the guaranty agency and the school or lender must enter into a new three-year default management plan. This second plan should reflect those elements which have been successful in reducing defaults over the last three years, as well as new measures designed to address the particular needs of that lender or school.

S. 2647 uses the term "adequate progress" to measure the level of success achieved in reducing defaults under the three-year default management plan required of certain institutions of higher education, lenders, and guaranty agencies. The Committee expects that the Secretary of Education, in the case of guaranty agencies and the Student Loan Marketing Association, and the appropriate guaranty agency in the case of lenders and institutions, to monitor and assess both the "good faith effort" and the actual progress in reducing defaults by the responsible agency, institution, or lender. The measure of progress should include both the reduction in the default rate and the reduction of the dollars in default.

The Committee believes that reducing the rate of defaults below 25 percent may not be the only measure of success or adequate progress. For instance, if an institution or lender reduced a default rate from 60 percent to 30 percent in three years, that could definitely be considered adequate progress. Thus, under such a situa-

tion, a guaranty agency would be encouraged to require another three-year default management plan instead of recommending to the Secretary of Education the implementation of limitation, suspension and termination proceedings. Also, bringing a substantial dollar amount into repayment could also constitute "adequate progress" within the meaning of the term contained in this legislation.

S. 2647 also prescribes the manner in which defaults are to be calculated. The accuracy of previous calculations of default rates were of primary concern to the witnesses at the default reduction hearings in December of 1987. It is the Committee's intent that default rates be tracked to the institution the student was attending when the loan originated. The Committee is very concerned that the current system traces all loans received by a student to the institution last attended. Since there is a direct correlation between the likelihood of loan repayment and the highest degree received, this places schools such as junior colleges in the position of receiving no credit for their borrowers who are most likely to repay, namely those who went on to earn a more advanced degree, while keeping as part of the school's portfolio the students who have the greatest likelihood of defaulting.

It is also the Committee's intent that if a loan was once in default but subsequently enters repayment, the loan should be removed from the list of defaulted loans in the default calculation. Without such an adjustment, there would be no incentive for a school, lender, or guarantor to encourage defaulters to repay their loans.

The Committee is of the mind that the look-back period on default rates be limited to a three-year period. This would allow institutions, lenders and guaranty agencies that have made significant progress in reducing defaults to have rates that reflect these new efforts rather than to be continuously penalized for past default problems. In choosing the three-year period, the bill allows the calculations for each of these years to include recoveries and defaults during the first two years of repayment. Such a span of time is necessary because a loan on which no payment was made, but which entered repayment at the end of a year, might never appear as a defaulted loan until two years later. This time span also permits students who may have had difficulty making early payments, but shortly thereafter entered repayment, to have such recoveries reflected in their institution's, lender's, and agency's default rate.

The Committee is aware of the lack of accurate data concerning loan defaults. It is the hope of the Committee that the recent attention given to the default issue and the provisions required in this bill will prompt more accurate and detailed information on both the causes and incidences of Stafford Student Loan defaults.

In the meantime, however, the problem is much too serious to ignore. S. 2647 requires the Secretary of Education to make default rate estimates in accordance with the method of default rate calculation provided for in this bill. This measure will allow default management plans to go into effect in the near future. As more accurate information becomes available, it is the intent of the Committee that such information replace the initial estimates made by the Secretary.

Title II of the bill includes a number of provisions designed to improve collections of Stafford Student Loans. The first is a provision requiring institutions to provide financial aid transcripts to any institution that requests them within 30 days of receiving a request. The Committee is concerned that some institutions are not receiving this information until many months after making a request. As a result, students and schools are often left waiting an inordinate amount of time before making final determinations of eligibility for student aid.

A second provision requires that an additional notice be made to borrowers during the grace period reminding them of the month their loan is to go into repayment. The Committee is concerned that students often have no reminders of their upcoming loan obligations during this time. This is of particular concern because the first six months after school completion is often a time when students move frequently, thereby becoming difficult to locate.

The Committee would like this notice to be sent within the first four months after the borrower has left school. The Committee, however, is aware that this may be difficult to accomplish because of the large number of loan transfers and sales that take place during the grace period. To accommodate this, the bill allows this additional contact to be made at any time during the grace period.

Third, Title II contains a provision requiring that the lender and borrower be notified any time a loan transfer or sale results in the payment being sent to a new address. Past borrowers sometimes have had difficulty knowing where to send their loan payments because of such transactions.

Fourth, S. 2647 authorizes guaranty agencies to enter into agreements with state licensing boards to help locate defaulting borrowers whose adresses are unknown. This provision should be particularly useful with borrowers who pursued a course of education or training that requires a state license. The Committee strongly recommends that guaranty agencies use this authority whenever state law permits.

The bill includes a modificatin regarding the participation of ability-to-benefit students in student assistance programs. This modification parallels a provision adopted in the Senate in H.R. 4783, the fiscal year 1989 Labor, HHS and Education Appropriations bill. The amendment requires that a student may not qualify as an ability-to-benefit student if the course of study in which the student is enrolled or accepted is less than one year, and is one which require certification by an agency other than the eligible institution in which the student is enrolled, and such certification requires a high school diploma or its equivalent in order to qualify. The Committee, after careful review of the ability-to-benefit provisions, believes it is unreasonable to expect a student both to complete his or her course work successfully and acquire the GED certificate in less than one year.

Further, Title II makes several changes to PLUS loans. Current law provides for a deferral of payment on principal and interest for these loans for any time that a parent has a child in college. The Committee is concerned with the long term effect such deferrals might have on individual borrowers, and as a result, the default rate of the entire program. For example, it is completely possible

for a parent borrower with several college-bound children to accumulate debt for each but never face repayment until the last child leaves school. At that time, parents would only have 10 years to pay the entire amount including the accumulated interest, and could be at an age when they are preparing for retirement or have retired and are living on a decreased income.

The bill also provides for credit checks for PLUS loans. PLUS was designed to be a non-need-based government insured loan for parents to make up for the cash flow problems many families face in trying to pay for today's rising cost of higher education costs. It was never intended, however, that these loans be made on demand. Rather, it is the intent of the Committee that a lender use the same careful deliberation in determining the borrower's ability to repay a PLUS loan as is used for other privately operated consumer loans at that financial institution. The bill further provides for a 5-percent administrative fee on all PLUS and SLS loans.

S. 2647 prohibits the use of loan consolidation for programs of less than 12 months unless the amount to be consolidated exceeds $7,500. The Committee has been appalled to learn of situations in which students in programs of short duration are encouraged to borrow the maximum amount allowable under law ($6,500) so that they can consolidate their loans upon graduation. In the process of consolidation, the original loans are paid off and a new loan agreement is entered into. Thus, those who obtain loan consolidation no longer show up on the schools' lists for the purposes of default calculations. Such action protects the schools from sharing the responsibility for the borrowers' repayment obligations while leaving the student with a loan that typically carries much higher interest charges.

Title II also requires first-time students to have been in school 30 days before student loan funds are received. This provision is to apply to any student who has never before completed a period of enrollment at an eligible institution and to all institutions participating in federal student aid programs. The Committee is very concerned about situations in which stendents enroll in post-secondary programs for the first time, quickly discover that they have made a wrong choice, leave school, and are left with a student loan obligation they cannot pay. These borrowers are less likely to find jobs that will enable them to meet their loan repayment obligation and are at high risk of default. This situation can be particularly bad for a person who may not have had a great deal of academic success and, in leaving school, faces yet another failure and the additional burden of student loan indebtedness.

The choice of 30 days is based upon evidence presented to the Committee that most dropouts occur within the first 21 days of class. It is the Committee's intent that loans may be endorsed as early as the 30th day after the start of study and that the schools may hold such checks until that time is reached. The Committee does not intend to affect current disbursement regulations and practices concerning non-first-time borrowers. In specifying that such loans may be disbursed 30 days prior to the beginning of the period of enrollment, S. 2647 is merely reaffirming current law.

S. 2647 also authorized an extended collection demonstration program for guaranty agencies in order to determine whether or not

delaying the onset of default and providing enhanced due diligence helps reduce the costs of federal student loan defaults.

In Massachusetts, 12,786 borrowers, with an average indebtedness of $3,200, defaulted on their student loans in 1985. The federal government paid $24 million to reimburse Massachusetts for these defaults. A longitudinal study of the post-default behavior of these individuals found that 5,825 (45 percent) began repayment within a year of default. Of those who began repayment, 3,127 (53 percent) made 24 or more consecutive payments. In other words, roughly 25 percent of those who defaulted on their student loans began repayment within a year of default and made regular payments.

These findings suggest that giving students more time to repay their loans while exercising increased due diligence would help avert defaults and reduce Federal default costs. The extended collection program would allow an additional 365 days to bring otherwise defaulted loans into repayment. The possible savings to the Federal government are considerable: If 20 percent of the defaults in Massachusetts could have been averted, the Federal government would have saved roughly $7.5 million in reinsurance costs. The cost of this extended collection program will come from extending the special allowance for one additional year. Assuming 7 percent T-bill rate and a constant $3,200 principal, the additional special allowance would total about $72 per loan, or about $900,000 for the entire portfolio of defaulted loans.

Under current procedures, a loan becomes delinquent on the first day after the due date of the first missed payment. The Federal Government requires that lenders send at least seven collection letters and attempt regular telephone contact with the borrower. The lender must also request preclaims assistance from the guaranty agency. Some agencies also provide supplemental preclaims assistance. When a loan has been delinquent for 180 days it is in default. The lender then has up to 90 days to file a default claim with the guaranty agency.

Loans that are between 120 and 180 days delinquent would be eligible for inclusion in the proposed demonstration project. In addition, the loan must have entered repayment in fiscal year 1987 or later, the location of the borrower must be known, preclaims assistance and required due diligence must have been performed, and the lender must not be in possession of information suggesting that the loan is uncollectable. The objective is to get as many delinquent loans into repayment as quickly as possible.

Guaranty agencies in the demonstration program must provide individualized or flexible repayment plans and must agree to make one phone attempt and mail one letter to the borrower every two weeks. Thus, there will be a minimum of 52 attempts to contact the borrower over the extended collection period.

To be eligible to participate in the demonstration program, guaranty agencies must, when applying, describe the novel and innovative approaches it will use in the extended collection program. In addition, the agency must demonstrate the following: experience and success in preventing defaults, including the use of forbearance; experience in the use of preclaims assistance and if applicable, supplemental preclaims assistance; that the program will be

used for students at two year, four year, and proprietary schools in proportion to the overall portfolio.

Guaranty agencies must provide annual reports to the Secretary of Education on the results of this demonstration. The Secretary will provide an annual report to the Congress on the status of this initiative.

Title II also specifies the point at which delinquent student loans must be reported to credit bureaus. Although the Higher Education Amendments of 1986 clearly calls for the status of all loans to be reported to credit bureaus, there is no date certain on which such reporting is to take place. It is the intent of the Committee that a loan on which a payment has been delinquent for 90 days will be reported to a credit bureau. This provision is not intended to lessen the speed with which the repayment status on all loans is reported.

Section 211 of the bill mandates each lender to notify the guaranty agency of any delinquent loan within 120 days of its delinquency. In turn, the guaranty agencies must provide this information regarding former students to any school which requests it. This information may be provided through a periodic list if such a method is convenient for the school or the guaranty agency. Also, it is not necessary to report loans that were delinquent at one point during the 120 day period but are no longer delinquent at the time the information is transmitted.

The Committee intends that guaranty agencies be prohibited from selling or trading their lists of student borrowers to other entities which might use these lists for solicitations. Specifically, it is the intent of Congress to prevent guaranty agencies from profiting from the marketing of lists of students whose loans are guaranteed by that agency and backed by the federal government. It is also the intent of Congress to prevent abuses by organizations marketing products, credit cards, and other goods to students who are applying for federal student aid.

Title II also provides for the collection of additional borrower information at the time of loan origination and the exit interview. The Committee believes that such information will assist in locating borrowers during repayment. The Committee recognizes, however, that in the case of the exit interview, a limited number of students may leave the institution without the institution's knowledge. In these cases, if an institution has subsequently attempted to notify the borrower of the terms and conditions of their loan repayment and has requested the additional information, and yet has been unsuccessful in obtaining it from the student, the Committee intends that the institution will not be held responsible.

The bill includes language restricting the release, by institutions of higher education, of the college transcripts for borrowers who have gone into default on their student loans. The bill also includes a narrow exception to the requirement that postsecondary institutions withhold these transcripts, exempting a situation in which the withholding would prevent the student from obtaining employment. The Committee is aware of the concern, on the part of some public institutions of higher education, that the provision may create a conflict with state laws or regulatory policies. In instances where there is a possible conflict with state law, under the federal supremacy doctrine, the federal law will prevail.

The bill restricts the manner in which eligible institutions can recruit students by prohibiting the use of independent contractors. The Committee, by this section, does not intend to prohibit the use of student or alumni volunteers in promoting the school, recruiting new students, or participating in student advising or admissions decisions made by the school. Thus, for example, students could continue to participate as voting members on their institution's admissions committees, as is currently the practice at some institutions.

Title II prohibits a school from defining its academic year differently for the Pell Grant, campus-based, and Stafford Student Loan programs. In the past, several schools have sought to avoid multiple disbursement requirements by creating different definitions for different programs.

The Committee seeks to place greater responsibility on independent contractors that administer schools' financial aid programs by allowing the Secretary of Education to initiate limitation, suspension and termination proceedings against any institution that continues to do business with such an agent after the Secretary has determined that the contractor has improperly administered student aid programs.

The Committee also mandates that the Comptroller General conduct a study of the treatment of students under chapter 13 of Title 11, United States Code, relating to the discharge of student loan indebtedness in bankruptcy proceedings. Specifically, the Comptroller General is to evaluate the effect of including such students under that provision of the law concerning Federal costs of the Stafford Student Loan Program and the institutional costs of the Perkins Loan Program. Further, the Committee intends that the study evaluate the behavior of student loan debtors in discharging student loans as compared to the behavior of other debtors utilizing the provision. Such factors as the age of the debtors, the amounts and types of debts discharged, and percentage of debts discharged shall be compared. The Comptroller is also to submit a report to the Congress on the study required in this legislation no later than three years after the date of enactment of this Act.

Title III of S. 2647 outlines new responsibilities for the Secretary of Education to assist in loan default reduction. Of primary concern to the Committee is the sharp reduction in the number of program reviews during the last eight years. In 1981, the Department conducted approximately 1,000 institutional reviews, but, by 1986, this figure dropped to 417. Therefore, Title III calls for the Secretary to publish a plan for conducting reviews. The Committee intends that the plan demonstrate a commitment to increased program reviews, especially of institutions with high default volume or rates.

The Committee is also concerned with the lack of adequate information on Stafford Student Loan defaults. Toward this end, the bill mandates the Secretary to publish an annual report which will include both an overall national default rate as well as individual rates for each school, lender and guaranty agency. The report will show both the dollar amount in default, as well as the percentage of default as calculated in accordance with Title I of this bill. The first report is to be published by December 31, 1988.

The Secretary is also required to publish and disseminate successful ideas for default prevention and reduction. In gathering these ideas, the Secretary should not ignore the schools, lenders, and agencies that have low default rates and are not, therefore, included in a default management plan. It is the Committee's view that such entities may have successful methods of default reduction that could benefit others.

Title III also requires the Secretary to publish and disseminate the legal restrictions and requirements participants must follow in implementing the various laws and regulations of the Higher Education Act. Of particular concern to schools, lenders and guaranty agencies is the way in which laws regarding privacy and fair debt collections practice apply to their work with student loan borrowers. The Committee understands that in publishing these regulations, the Department may use the form of regulations called "guidelines."

Of great importance to the Committee are new rules on accreditation contained in Title III. It is the Committee's view that many of the worst cases of administrative abuse in student aid programs are caused by schools whose actions call into question their worthiness to remain accredited. Such actions have cast a shadow on an entire sector of institutions, many of which do an excellent job of providing education and training programs to the citizens of this nation.

The Committee applauds the suggestions for stricter accreditation rules that have been provided by various accreditation associations. Among those included in this bill is a loss of eligibility under the Higher Education Act for any institution that has had its institutional accreditation withdrawn or who withdraws from its accrediting association when it becomes clear that its accreditation is at risk. An exception is made for schools whose accreditations are subsequently restored by the same association.

In using the term "institutional accreditation", the Committee intends that such action should apply only to accreditation that covers the entire institution and is conducted by a nationally or regionally recognized agency. This provision would not apply, for example, to a large university whose nursing school lost one of its professional nursing accreditations if the university remained in good standing with its regional accrediting association.

The Committee also recognizes that the accreditation process involves a very complex and comprehensive review of every facet of a school's operation. It is possible, for example, for a school to lose its accreditation because it does not have enough books in its library. For this reason, S. 2647 provides for the Secretary to make exceptions to the termination of eligibility rule whenever he believes that the school has submitted evidence of its academic integrity.

The Committee has been concerned about reports of abuses occurring in a small number of participating institutions. For example, in April of this year the Cleveland Plain Dealer published a series of articles which exposed some serious problems in certain Ohio schools. According to this investigation, some of the schools have been aggressively recruiting unqualified students to sign up for courses and take out federally guaranteed student loans to pay for them. When the students find that they cannot complete the

work, or that the courses are not as represented, they drop out and, still unemployed, cannot repay their student loans. These unfortunate situations impose financial hardships on the students and increase costs to the federal Treasury. The Committee wants to make clear that these practices are not typical of most trade schools. The majority of these schools are well run and do a responsible job of training their students to obtain employment. However, the Committee is concerned about the small minority of schools which may be taking advantage of vulnerable students and contributing to the problem of student loan defaults.

Section 306 addresses this problem by requiring the Secretary to establish and publicize a toll-free consumer hotline for use by the public. Students who believe they have been victims of fraud or unfair practices by participating institutions may use this number to bring such practices to the attention of the Department of Education for appropriate action.

The Committee is aware that the Department's Office of the Inspector General currently has in place a toll-free hot-line to report fraud, waste, or mismanagement involving Department of Education programs. The Department may use this existing hotline to meet the requirements of this Section by publicizing its purpose and availability to students receiving financial assistance under this title.

Title III also requires the Secretary to have the National Student Loan Data System operational no later than October 1, 1989. In this regard, the Committee intends that the system shall be in operation by that date, or earlier if possible. The Committee understands that much of the information needed to enable the Secretary to meet this goal is already available and that testing of the data may be the primary obstacle to be overcome in accomplishing the legislative objective ahead of the prescribed deadline.

Section 308 would provide additional protections for students and the Federal Treasury by giving the Secretary of Education authority to require institutions to make refunds to students in cases where an institution has engaged in serious misrepresentation of its educational program, its financial charges or the employability of its graduates. Under this authority, institutions would first reimburse the Federal Government for that portion of the tuition and fees paid for with Federal funds. Additional refunds would be applied to the repayment of federally guaranteed student loans, and, finally to reimbursement to the students.

In addition to the default management provisions contained in this bill, the Committee also makes several changes in needs analysis. The Higher Education reauthorization of 1986 made many substantive changes to needs analysis. Although it is the view of the Committee that most of these provisions should not be altered until the next reauthorization, several changes are warranted either because of unnecessary complexity or because of the severe inequities they are creating.

Title IV simplifies a number of provisions in needs analysis based on the recommendation of the newly created Advisory Committee on Student Financial Assistance. For example, the current definition of an independent student is more complex than need be, considering the miniscule number of students who fall under cer-

tain categories of the definition. S. 2647 eliminates those categories in order to simplify the definition for all applicants.

A simplified treatment is also provided for displaced homemakers and dislocated workers. Although these two categories require many additional questions on all student aid applications, the adjustments for these borrowers could be easily made through financial aid officer discreation. S. 2647 provides for such an adjustment. A similar solution is used to address the problem faced by families whose incomes fall below the standard maintenance allowance.

Several modifications are made to the contribution formula. First is a provision clarifying that in determining the definition of the number of family members in school, only those family members who are enrolled in a degree or certificate program may be counted. The Committee has learned that several schools have counselled parents to enroll in a single course. This enables the parents to be counted among the family members in college, thereby increasing the amount of student aid for which their childern are eligible. Through this amendment, the Committee hopes to stop the abuse of a provision designed to help adults with children to pursue their own academic studies.

The bill also clarifies that a student's earnings which are placed in a savings account are only to be counted once when determining available resources. Confusion over current law has resulted in students' earnings placed in savings accounts being counted twice, first as a part of income and then as resources available in savings accounts.

Modifications are also made by reducing the expected contribution for dependent students from 70 percent to 50 percent of their base year earnings. The Committee is concerned that the current taxation rate is serving as a disincentive for students to work. Although the Committee believes that students should make substantial contributions towards their education, it does not wish to defeat its own purpose by creating a system that encourages students not to work.

The Committee also adjusts the treatment of veterans' educational benefits so that all such benefits are examined for the purposes of needs analysis. Current law only looks at half of these benefits. The Committee believes that it is only equitable to consider all educational resources in determining the allocation of additional federal education money.

S. 2647 also eliminates the consideration of home and farm equity and small business assets for both the Pell Grant needs analysis and the Congressional Methodology. These are important changes that the Committee believes are necessary in order to bring greater equity to the determination of need in the federal student assistance programs.

For several years the Committee has been aware that escalating home values were placing families with very modest means at a considerable disadvantage. The value of their home indicated an asset against which they could conceivably borrow to finance a child's postsecondary education. Yet, their income was insufficient to permit the family to borrow and also repay the loan. In some instances, they could not qualify for a loan because of their low

income. In other instances, they simply did not have the financial ability to repay a loan, even if they could qualify.

A similar sitution has been encountered by farm families. These families often find themselves in a situation where the value of the farm they own indicates an asset against which they could borrow to finance a child's education. Because of the farm crisis, however, they often cannot borrow against the value of their land, and even if they could, they all too often find themselves without sufficient income to repay a loan.

Under current law, the value of the home or the farm is working to disqualify otherwise needy, deserving families from the aid they need to help finance their children's postsecondary education. They find themselves not only ineligible for Pell Grant assistance but also unable to qualify for a loan.

The Committee is also concerned, however, that the elimination of the non-liquid assets provision in current law be directed only to the most needy families. The provision to eliminate the consideration of home and farm equity and small business assets is limited, therefore, to families with annual adjusted gross incomes of less than $30,000.

Further, the Committee also mandates the Secretary of Education to recommend to the Congress changes in the asset protection allowances, asset conversion rates and other factors used in the determination of expected family contribution. These changes are necessary to achieve an equitable assessment of income and assets in light of the elimination of home, farm and business equity. If such changes are not made, it is possible that the present asset protection allowance, which includes an amount for home, farm and business equity, would enable some families with considerable savings to escape consideration of those savings in the determination of eligibility for student aid.

Other Higher Education amendments are addressed in Title V. Among these is a provision clarifying the number of years a student is eligible to receive Pell Grants. Current law limits undergraduates to 5 years of grant aid for programs normally requiring 4 years to complete and 6 years for programs normally requiring more than 4 years. S. 2647 adds a provision that limits eligibility in all programs to the number of academic years normally required to complete a program plus 1 year.

Secondly, Title V clarifies how non-need based earnings are to be calculated. Current provisions make it possible for a student's non-work-study earnings to affect both their work-study award for that year as well as their base year earnings for the next year's determination of need. To eliminate this double-counting, S. 2647 deletes the requirement that schools monitor current year earnings. In this way, a work study student can earn additional money, but these additional earnings will be counted towards their next year's eligibility only.

The Committee has restricted the use of the "in-school" or student status deferment for borrowers who are serving in health professions internship or residency programs. Current law allows health professions residents a two years deferment for up to two years. The Committee is aware that certain medical institutions extend this deferment for their residents providing them student

status throughout their residency. However, the Committee is also aware that some of these individuals, including certain dental residents who serve in programs beyond two years, either pay tuition or receive stipends too small to cover educational costs and repayment of student loans and are not so designated by their institutions. The Committee recognizes that these borrowers have every intention of repaying their loans, but are temporarily unable to meet their obligations. An alternative to default, forebearance, allows borrowers to cease temporarily making payments, to make smaller payments than previously scheduled, or to extend the time for making payments. Although current regulations encourage lenders to grant forbearance, the Committee is concerned that many borrowers are unaware of this option. The Committee directs lenders to publicize the availability of forbearance to borrowers, including those in postdoctoral status.

S. 2647 also contains changes that pertain to the ownership restrictions on stock of the Student Loan Marketing Association (Sallie Mae) and changes in the composition of the Board of Directors to simplify Sallie Mae's capital structure and to expand public stockholder participation in the affairs of Sallie Mae.

With respect to stock, the legislation would merge the two outstanding classes of stock of Sallie Mae into a single class of unrestricted voting common stock, granting voting rights on a "one-share, one-vote" basis to the holders of the outstanding 27 million non-voting shares. The bill accomplishes this goal while ensuring that Sallie Mae's governance remains with the Stafford Student Loan Program participants represented on Sallie Mae's Board of Directors by changing the composition of the Board and defining the qualifications of eligible directors to be selected by the shareholders.

The legislation provides that the Board of Directors be composed of 19 members, four of whom shall be appointed by the President of the United States and fifteen of whom shall be elected by shareholders. The fifteen must meet criteria specified in S. 2647. Five will be affiliated with eligible institutions of higher education. Five will be affiliated with eligible lenders. Five will be selected at-large, and cannot currently be affiliated with lenders or institutions except as trustees.

Further, in keeping with the principles of shareholder democracy, the bill provides that the Board, a majority of whom will represent program participants, will elect its own Chairman.

Also, S. 2647 contains important changes in regard to the selection of student aid application processors. For several years the Committee has been very concerned that there be open, equitable competition among those organizations that seek government contracts for processing student aid applications and issuing eligibility reports. This concern has arisen because of the small number of organizations with which the Department of Education contracts, the great disparity in development costs charged to the Department of Education by the contractors, and the wide divergence in the per student cost of processing an aid application.

In the 1987 Higher Education Technical Amendments, the Senate approved language that increased the minimum number of

contractors from not less than 3 to not less than 5. In addition, the Senate-approved bill stipulated the following:

> The Secretary shall not select new multiple data entry processors after the date of enactment of the Higher Education Amendments of 1965, until the Advisory Commission on Student Financial Assistance has examined and made recommendations on the expansion of the number and kind of processors and its impact on students, has assessed and made recommendations on the relative cost of processing applications and development fees, and has examined and made recommendations on the implementation of a standardized fee for the reimbursement of all processors by the Federal Government.

This language was accepted by the United States House of Representatives and was signed into law by the President on May 6, 1987.

The Committee has continued to believe, however, that the present situation of limited competition should not extend indefinitely. Further, information from the Department of Education indicates that there continues to be considerable difference in the costs charged to the Federal Government by the several processors. For instance, in 1987–88, development costs among the four processors differed greatly. According to the Department of Education, American College Testing (ACT) had development costs of $74,584, while College Scholarship Service (CSS) had development costs of $385,422. The per application cost of processing charged to the Federal Government displayed a similar disparity, from a low of 60 cents by the Illinois State Scholarship Commission to a high of $1.51 by the Pennsylvania Higher Education Assistance Authority.

Therefore, while the Advisory Commission has yet to issue a final report, the Committee is of the mind that the present situation with respect to processors should not continue, and that changes do need to be made in current law. Every effort, however, has been made to make sure that these changes are consistent with communications from the Advisory Commission.

Among the changes included in S. 2647 are the following: (1) specifying that the common financial aid form contain the minimum number of elements the Secretary believes necessary to determine financial need, (2) permitting the collection and use of additional data by approved processors, (3) removing any mention of a minimum number of processors, (4) stipulating the number of student aid records or student financial aid forms that must be processed for an organization to be eligible for consideration as a processor, (5) requiring that reimbursement for processing applications be based upon a negotiated rate, and (6) prohibiting the reimbursement of development costs of an alternative form.

The Committee strongly believes that the processing of student financial aid applications should be done in an efficient and economical manner, and one that does not result in excessive costs to the Federal Government. It also intends that eligible processor applicants have substantial experience in data processing that relates to Title IV programs. In this regard, the language in the legislation that relates to the processing of student aid records includes Staf-

ford Student Loan records, multiple data entry records and needs analysis records. Further, the Committee believes that while processors may be allowed to collect and use additional data in other parts of the form, the Federal Government should not bear the costs associated with the collection and/or use of such additional data.

The fiscal year 1988 and 1989 appropriations laws both included a setaside of $239,000 in Title IX, Part B funds for the Patricia Roberts Harris Fellowship Program. The fiscal year 1988 funds went to the University of Georgia in cooperation with several historically black colleges and universities, while the fiscal year 1989 funds are to be awarded to the University of Kansas to carry out a similar cooperative program. The Committee believes that these consortia not only enhance the purpose of the program by providing more fellowships to minorities and women, but facilitates the participation of historically black colleges and universities in the Patricia Roberts Harris Fellowship Program. Given the declining number of Black Americans, Hispanic Americans, and Native Americans receiving graduate degrees, especially the Ph.D, every effort should be made to expand the reach of this important program. This provision provides for the eligibility of consortia, including black colleges and universities, to compete for grants under the Patricia Roberts Harris Program through a separate authorization. The Secretary would have discretionary authority to fund high quality applicants with consortial arrangements.

Finally, during congressional consideration of The Hawkins-Stafford Elementary and Secondary School Improvement Act of 1988 (P.L. 100-297) the procedures for initial hearing and departmental review of audit findings was substantially m- lified. These revisions to the General Education Provisions Act establish an independent finder of fact by appointment of Administrative Law Judges; mandate procedures for the production of documents and the taking of depositions; establish a due process procedure for considering audit exceptions to expenditures by grantees of the Department of Education; provide specified time limits governing all procedures; establish criteria for the measure of recovery and clarify under what mitigating circumstances there might be a complete bar to recovery by the Department; and provide a new basis for Secretarial and appellate review of the decision by an Administrative Law Judge.

The Committee bill simply makes these important revisions applicable to the Higher Education Act.

V. Regulatory Impact Statement

The Committee has determined that there will be no increases in the regulatory burden imposed by this bill.

VI. Tabulation of Votes Cast in Committee

On August 10, 1988, the Labor and Human Resources Committee met in Executive Session and decided to report favorably an amendment in the nature of a substitute to S. 2647. Senator Kennedy offered the amendment in the nature of a substitute which

was reported favorably from the Committee by a unanimous voice vote. Senators present were as follows:

Kennedy
Pell
Metzenbaum
Matsunaga
Simon
Harkin
Adams
Mikulski
Hatch
Stafford

VII. Cost Estimate

U.S. Congress,
Congressional Budget Office,
Washington, DC, August 10, 1988.

Hon. Edward M. Kennedy,
Chairman, Committee on Labor and Human Resources, U.S. Senate, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the attached cost estimate of S. 2647, the Stafford Student Loan Default Prevention and Management Act of 1988, as ordered reported from the Senate Labor and Human Resources Committee on August 10, 1988.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

James L. Blum,
Acting Director.

Attachment.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: S. 2647.
2. Bill title: Stafford Student Loan Default Prevention and Management Act of 1988.
3. Bill status: As ordered reported from the Senate Labor and Human Resources Committee on August 10, 1988.
4. Bill purpose: The purpose of this bill is to amend the Higher Education Act of 1965 to (1) make several modifications in the Guaranteed Student Loan Program (GSLP), recently renamed the Robert T. Stafford Student Loan Program, and establish through the Secretary of Education a system for default management agreements, (2) modify several provisions in the Pell Grant program, and (3) provide for other programs or studies which would assist in default reduction and prevention efforts. The GSLP is considered an appropriated entitlement program; the authorization to make loans to first-time borrowers expires at the end of 1991. The Pell Grant program and the other programs are subject to subsequent appropriations action. The authorization for Pell Grants expires at the end of 1991.

5. Estimated cost to the Federal Government:

[By fiscal years, in millions of dollars]

	1989	1990	1991	1992	1993
DIRECT SPENDING					
Guranteed Student Loan Program:					
Estimated budget authority	−95	−175	−250	−225	−140
Estimated outlays	−70	−160	−260	−245	−160
AUTHORIZATIONS					
Pell grants:					
Estimated authorization level		284	337		
Estimated outlays		57	289	269	7
Special Grants for the benefit of Historically black colleges:					
Estimated authorization level	(1)	(1)	(1)		
Estimated outlays	(1)	(1)	(1)	(1)	(1)
Student loan toll-free hot line:					
Estimated authorization level	2	2	2	2	3
Estimated outlays	2	2	2	2	3
Study of loans discharged in brankrupty:					
Estimated authorization level	(1)				
Estimated outlays	(1)	(1)	(1)		
Subtotal authorizations:					
Estimated authorization level	2	286	339	2	3
Estimated outlays	2	59	291	271	10
Bill total:					
Estimated budget authority/authorization level	−93	111	89	−223	−137
Estimated outlays	−68	−101	31	26	−150

[1] Less than $500,000.

The costs of this bill fall in Function 500.

BASIS OF ESTIMATE

Guaranteed Student Loan Program (GSLP)

The Guaranteed Student Loan Program (GSLP), recently renamed the Robert T. Stafford Student Loan Program, includes the Guaranteed Student Loan (GSL), the Supplemental Loans for Students (SLS), and the Parent Loans for Undergraduate Students (PLUS) programs. Most of the changes included in S. 2647 would affect participation in and the cost of the more subsidized GSLs. Since the authority to make loans to first-time borrowers expires at the end of 1991, the estimated cost impacts of programmatic changes reflect this expiration date. Assuming an enactment date of October 1988, the effective date, based on bill language, is assumed to be December 1988 unless otherwise noted.

This bill amends the current GSLP law, which was substantially revised by the Higher Education Amendments of 1986 (P.L. 99-498) enacted in October 1986 and subsequently revised in the recently enacted technical amendments (P.L. 100-369). The combination of some forty program changes in the 1986 statute were expected to have a large effect on participation in the GSLP. However, at this time very little data exist on the programmatic impacts resulting from the 1986 program changes. Therefore, cost estimates of the further program revisions included in S. 2647 are highly uncertain.

CBO estimates that the combination of all the GSLP changes would reduce direct federal costs by approximately $95 million in 1989 and by approximately $140 million in 1993. There is substantial interaction between these proposals so that the combined effect of all the changes does not equal the sum of the budget impact of each change estimated separately. Each estimate is discussed below.

S. 2647 would require the Secretary to publish a report annually on the default rate and the dollars in default for each guarantee agency, lender, and school. Based on this report, agencies with default rates exceeding 25 percent would have to enter into a default management agreement with the Secretary of Education. The contents of the agreement would be determined after a review of the agency operations. The Secretary would also conduct program reviews of all guarantee agencies which rank in the top 5 percent of all GSLP agencies measured by the dollars in default. Based on the results of these reviews, the Secretary would enter into default management agreements with these agencies. Schools and lenders which have default rates exceeding 25 percent would have to enter into default management agreements with designated guarantee agencies. Also, guarantee agencies would conduct program reviews of lenders and schools which rank in the top 5 percent of all GSLP schools or lenders as measured by dollars in default. Based on the results of those reviews, lenders and schools would enter into default management agreements with the guarantee agency. We cannot estimate any reductions in defaults from these agreements because each default management agreement would be negotiated separately and we do not know the specific steps the Secretary or the guarantee agencies would take. We also do not know the results of the program reviews to be used in writing the default management agreements.

S. 2647 would require a 5 percent administrative fee on all SLS and PLUS loans at the time of cash disbursement. These fees would directly offset program cost similar to the current 5 percent origination fee on GSL loans. In 1989, fee collections are estimated to total $85 million. By 1993, the fee collection would decrease to $25 million under current law, primarily because loans to new borrowers are not authorized after 1991.

This bill would require the first cash disbursement of GSL and SLS loans to first-year, first-time undergraduate borrowers be disbursed 30 days after classes begin. This change would effect close to 1.5 million borrowers. Since disbursements are usually made ten days to two weeks before the start of school, the federal government would pay approximately six weeks less in interest on the first cash disbursement of the GSL loans. A small reduction in loan volume is projected because some students would drop out of school before receiving the proceeds of their loan. In addition, because students who drop out of school before 30 days are likely to have high default rates, we project a reduction in future default claims that would reduce federal outlays. S. 2647 would also delay the time between the first and second cash disbursement on loans for all other students from a minimum of one-third of the total period of enrollment to one-half the period. This change is expected to have a very small impact on costs. The total budget impact of these two

changes is expected to be minimal in 1989 and to save $155 million in 1993.

Currently, any parent of a dependent student or a dependent of an independent student attending classes at a postsecondary institution can also be considered a student for purposes of determining GSL program eligibility. A student classification for parents and dependents lowers the expected family contribution towards the prospective borrower's educational expenses and increases their eligibility for a subsidized GSL. Beginning in July 1990, S. 2647 would mandate that parents of dependent students or dependents of independent students be enrolled in a degree or certificate program in order to be categorized as a student in determining the borrower's eligibility for a GSL. This provision would affect a small number of students and is expected to reduce costs marginally in 1990 and by $5 million in 1993.

Under current law, dependent students must contribute 70 percent of their earnings as reported on the latest tax form to the cost of education in determining their eligibility for a GSL. This bill would reduce that rate to 50 percent of earnings beginning in July 1990. As a result by 1991, approximately 150,000 dependent borrowers would become eligible for a student loan and another estimated 675,000 would be able to increase their loan on average $300 as a result of this change. By 1993 this provision is estimated to cost $55 million.

Currently, families are expected to contribute a portion of their liquid and nonliquid assets above an exclusion threshold of approximately $30,000, varying with the age of the parents. Beginning in July 1990, any expected family financial contribution from home equity or farm and small business assets would be eliminated in the determination of GSL eligibility for dependent students from families with $30,000 or less adjusted gross income. This change would decrease the expected family financial contribution for students and thus increase their eligibility for a GSL. Approximately 150,000 current borrowers would have their loan levels increased as a result of this change. The average loan increase is expected to be about $400. An additional 65,000 students would become eligible for a regular GSL as a result of this change. By 1993, this change is estimated to cost $20 million.

Under current law, dependent students are expected to contribute a portion of their income as reported on their latest tax return and a portion of their assets towards their education. As of July 1990, this bill would eliminate any contribution from students' savings from income in the tax year being assessed. By 1991, an estimated 130,000 dependent borrowers would increase their GSL loan levels as a result of this change. By 1993, this provision is expected to cost $5 million.

This bill would explicitly prohibit medical schools from classifying medical residents as students. As a result, any medical resident who had been classified as a student would no longer be eligible for in-school interest subsidies, although they would still be eligible for interest subsidies under a maximum two-year deferment provision. It is not known how many medical residents this would affect, but based on discussions with several people involved with medical residents, classifying residents as students seems to be a recent and

growing phenomenon. This estimate reflects an assumption that over 5,000 residents would be affected. Since the average residency is 3.6 years and the current deferment is only for a maximum of two years, federal interest subsidies would decline $10 million in 1989 and $20 million in 1993.

The remaining provisions in S. 2647 would increase information sharing among borrowers, institutions, and guarantee agencies; allow schools to enter into agreement with guarantee agencies to pay for the defaults of their students; establish an extended collection demonstration program; limit program eligibility for schools with loose accreditation; and tighten other administrative and program procedures. All of these changes combined are either expected to have a marginal effect on reducing federal costs or their effects cannot be determined because they are dependent on future discretionary actions of the Secretary of Education, guarantee agencies, or lenders.

Pell Grant Program

As with the changes in the GSL program, S. 2647 excludes from the Pell Grant needs analysis the assessment of home equity and farm and small business assets for those with $30,000 or less adjusted gross income. This bill would also make several other small changes in the Pell Grant program that are estimated to have minimal impact on program costs.

Compared with the current law, S. 2647 would increase the authorization level by $284 million in 1990 and $337 million in 1991. S. 2647 would also increase the number of Pell Grant recipients by about 3 percent. These estimates are based on the CBO Pell Grant model that simulates the effects of program changes on the applicants and estimates the costs of fully funding the proposed program.

Other Programs

This bill establishes a separate authorization for grants to consortia of institutions to provide financial aid to students and faculty from historically Black colleges who are pursuing doctoral studies. These grants are authorized in S. 2647 at such sums as may be necessary for 1989 through 1991. These grants have been appropriated under the overall authorization level for Part B of Title IX of the Higher Education Act of 1965. The estimated authorization reflects the 1988 funding levels for the current consortia grants of $239 thousand adjusted for inflation through 1991.

S. 2647 authorizes the Secretary of Education to establish a student loan hot-line. Based on the experience of the current student financial aid hot-line, costs are estimated to be approximately $2 million in 1989. This cost is adjusted for inflation in the outyears. Also, this bill mandates that the General Accounting Office (GAO) conduct a study of student loans discharged in bankruptcy. This study is to be completed within three years. Based on other GAO studies, the cost of this report is expected to be minimal.

The estimated total outlays assume full appropriations of the authorized levels at the start of the fiscal year and reflect the spending pattern of other similar education programs.

6. Estimated cost to State and local government: The Congressional Budget Office has determined that the budgets of state and local governments would not be affected directly by the enactment of this bill.

7. Estimate comparison: None.

8. Previous CBO estimate: On August 3, 1988, CBO prepared a cost estimate on H.R. 4986, the Student Loan Default Initiative Act of 1988, as ordered reported from the House Education and Labor Committee. H.R. 4986 establishes the Pell Grant program as an entitlement for qualifying students and lowers the maximum award levels to $2,400 in 1990 and $2,500 in 1991. S. 2647 keeps Pell Grants as a discretionary program, but alters it by eliminating home equity and farm and small business assets from needs analysis of applicants with $30,000 or less adjusted gross income. S. 2647 keeps the current authorized maximum award levels at $2,900 in 1990 and $3,100 in 1991 and costs $1,423 million more than H.R. 4986 in 1990 and $1,714 million more in 1991.

The GSLP provisions in S. 2647 are estimated to save $40 million more in 1989 and $155 million more in 1993 than those included in H.R. 4986. The higher savings result from three major differences: (1) S. 2647 provides for a 5 percent administrative fee on PLUS and SLS loans; (2) S. 2647 provides for a 30 day delay in cash disbursements to first-year first-time undergraduate borrowers rather than the 15 days included in the House bill; and (3) S. 2647 limits the elimination of home equity and farm and business assets in computing financial need only to dependent students with $30,000 or less adjusted gross income rather than to all students.

9. Estimate prepared by: Deborah Kalcevic and Maureen McLaughlin

10. Estimate approved by: James L. Blum, Assistant Director for Budget Analysis.

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, DC, August 11, 1988.

JAMES L. BLUM,
Acting Director, Congressional Budget Office,
U.S. Congress, Washington, DC.

DEAR MR. BLUM: We are writing to request a letter clarifying the CBO estimate of S. 2647, the Stafford Student Loan Default Prevention and Management Act of 1988, issued August 10, 1988.

We are particularly concerned with what may be a misleading comparison between H.R. 4986 and S. 2647. We ask, first, that CBO make special note of the fact that the House bill is an entitlement and the Senate measure involves discretionary spending, and what that difference means.

Secondly, we request an official estimate comparing the House bill and the Senate bill with Pell Grant maximum award levels of $2,400 in Fiscal 1990 and $2,500 in Fiscal 1991.

Third, we would also ask that the CBO estimate make clear that the Pell Grant discretionary spending provided in the Senate bill could be further reduced by appropriations legislation in the case not only of the estimate requested in this letter but also in the August 10 CBO estimate that was based on the authorized levels

contained in the Higher Education Amendments of 1986 and retained in the Senate bill, S. 2647.

Sincerely,

EDWARD M. KENNEDY,
Chairman,
Committee on Labor and Human Resources.

CLAIBORNE PELL,
Chairman,
Subcommittee on Education, Arts, and Humanities.

ORRIN G. HATCH,
Ranking Minority Member,
Committee on Labor and Human Resources.

ROBERT T. STAFFORD,
Ranking Minority Member,
Subcommittee on Education, Arts, and Humanities.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, August 11, 1988.

Hon. EDWARD M. KENNEDY,
Chairman, Committee on Labor and Human Resources,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: This letter is in response to your request that the Congressional Budget Office clarify several points in its cost estimate dated August 10, 1988, of S. 2647, the Stafford Student Loan Default Prevention and Management Act of 1988. S. 2647 amends both the Stafford Loan Program (formerly the Guaranteed Student Loan Program) and the Pell Grant Program.

First, as amended by S. 2647, the Pell Grant program remains a discretionary program, authorized through 1991. In estimating the costs of discretionary programs, CBO assumes full funding at the authorized levels specified in the legislation. Final program levels for discretionary programs, however, are determined by Congressional appropriations and could fall below the full funding levels assumed in the CBO cost estimate of S. 2647. On the other hand, H.R. 4986, the Student Default Initiative Act of 1988, would make the Pell Grant program an entitlement. As an entitlement, appropriations are required to cover the mandated program levels.

Second, as you requested, we have compared S. 2647 and H.R. 4986 in terms of their respective Pell Grant costs assuming identical maximum awards, namely $2,400 in FY 1990 and $2,500 in FY 1991. Doing so, as indicated on the attached table, shows that S. 2647 is estimated to cost $214 million more than H.R. 4986 in FY 1990 and $242 million more in FY 1991. The primary programmatic difference between S. 2647 and H.R. 4986 in this comparison is that S. 2647 does not use home equity and farm and small business assets in the needs analysis of applicants with $30,000 or less adjusted gross income. These comparisons assume full funding of these maximum awards levels in both bills. In the case of S. 2647, appropriations action could further reduce these costs.

I hope that this letter has answered your questions about the CBO cost estimate of S. 2647.

Sincerely,

JAMES L. BLUM,
Acting Director.

Attachment.

Pell grant options: Estimated Costs of S. 2647 and H.R. 4986 as ordered reported from their respective Committees assuming a 1990 maximum award of $2,400 and a 1991 maximum award of $2,500.

[By fiscal year, in millions of dollars]

	1989	1990	1991	1992	1993
H.R. 4986:					
Budget authority		4,768	4,933		
Outlays		954	4,706	3,942	99
S. 2647:					
Budget authority		4,982	5,175		
Outlays		996	4,921	4,136	104
Difference: Costs of S. 2647 less costs of H.R. 4986:					
Budget authority		214	242		
Outlays		43	216	193	5

VIII. SECTION-BY-SECTION ANALYSIS

TITLE I

Section 101 of the bill amends Part B of title IV of the Higher Education Act of 1965 by inserting a new section 430B which establishes requirements for any school, lender or guaranty agency with a default rate in excess of 25 percent and each institution or agency in the top 5 percent of defaulted loans nationwide measured by dollar value to develop a default management plan.

New sections 430B(a)(1)(A) provides for the Secretary to determine the default rate for each guaranty agency. For each agency with a rate above 25 percent the Secretary shall develop an appropriate default management plan tailored to the specific needs of the agency.

New section 430B(a)(1)(B) requires that the Secretary determine which guaranty agencies have the highest 5 percent of dollar value in default and to conduct a program review of those agencies to determine the causes of their default problems. If the Secretary determines that the management techniques of the agency have contributed to the default problem he shall develop a default management plan in cooperation with that guaranty agency.

New sections 430B(a)(2)(A), 430B(a)(2)(B), and 430B(a)(2)(C) set forth provisions which may be imposed as part of a default management plan, but do not have to be included. Any additional measures which the Secretary and the guaranty agency agree may be helpful to increase the collections of Stafford Student loans may also be included in a default management plan.

New section 430B(b)(1)(A) requires the Secretary to determine the default rate of each eligible lender and each eligible institution. Those lenders and institutions with default rates in excess of 25 percent are required to develop and implement default management plans in cooperation with the designated state guaranty agency for the state in which the lender or institution is located.

New section 430B(b)(1)(B) requires the Secretary to determine which eligible institutions are in the top 5 percent nationwide of dollar value in default, and to assign the appropriate guaranty agency to evaluate the management practices of the institution with respect to Title IV programs, and if necessary, for the state guaranty agency in cooperation with the institution to develop and implement a default management plan.

New section 430B(b)(1)(C) provides that if an institution does not have more than 25 loans in default during the fiscal year then it does not have to undertake a default management plan.

New section 430B(b)(1)(D) designates the guaranty agency for the State to be the appropriate guaranty agency to develop and implement the default management plan for the lenders and schools in the State.

Section 430B(b)(1)(E) allows the designated state guaranty agency to transfer the responsibility of setting up a default management plan with a lender or a school if a significant portion of its loans are held by a different guarantor.

New sections 430B(b)(3)(A) through 430B(b)(2)(C) include provisions which the guaranty agency may or may not include in a default management plan for an eligible lender. The lender and the guaranty agency may agree to include other provisions in the default management plan.

New sections 430B(b)(2)(A) through 430(B)(b)(2)(C) include provisions which the designated guaranty agency may include in a default management plan for an eligible institution. The school and the guaranty agency may agree to include other provisions in the default management plan.

New section 430B(c)(1) provides that a default management plan must be developed within 120 days after the default rates published by the Secretary warrant such action.

New section 430B(c)(2) requires that if a default management plan is develop during the first fiscal year following the enactment of the bill, it is to be based upon the initial estimate of default rate by the Secretary.

New section 430B(c)(3) affords any guaranty agency, lender or school an appeal process to the Secretary regarding the development and implementation of a default management plan.

New section 430B(d) allows the Secretary to initiate limitation, suspension or termination (L,S&T) proceedings against any eligible lender or eligible institution which does not substantially comply with the default management plan to which they are subject. It also permits a guaranty agency to recommend L,S&T proceedings to the Secretary for any lender or eligible institution that fails to reduce its default rate below 25% within 3 years of the implementation of the default management plan. If such recommendation is made the Secretary is required to initiate L,S&T proceedings. If, after three years, a guaranty agency chooses not to recommend

L,S&T for a school or lender, the school or lender in question is required to develop and implement another default management plan in cooperation with the guaranty agency.

New section 430B(e) provides the formula to be used by the Secretary in determining the default rate for each guaranty agency, eligible lender, and eligible institution.

New section 430B(f) provides conforming amendments, and disqualifies any guaranty agency, lender, or institution from being a part of the Stafford Student Loan Program if the guaranty agency, lender or institution fails or refuses to develop a required default management plan.

TITLE II

Section 201 provides for a more efficient flow of information between institutions by having them provide financial aid transcripts within 30 days of receiving such requests from other eligible institutions.

Section 202 amends Sec. 427(a)(2)(B)(ii) of the Act to require the lender or holder of a Stafford Student Loan to notify the borrower during the grace period as to when the repayment period is to begin.

Section 203 requires the lender to notify the appropriate guaranty agency if a loan is sold or transferred to another holder within 60 days of the sale or transfer. This section requires that the same be done with respect to the borrower if the sale or transfer results in the borrower having to send payments on the loan to a new address.

Section 204 prohibits guaranty agencies from selling their lists of Stafford Student Loan borrowers.

Section 205 provides that in cases where a guaranty agency does not know the whereabouts of a borrower, the guaranty agency may enter into agreements with the state licensing board to provide such information.

Section 206 eliminates PLUS loan deferments that are based on the status of the child and not the parent.

Section 207 amends Section 428B of the Act by adding new subsection (e) requiring lenders to obtain a credit check of applicants for PLUS loans. In the instances of a negative credit history, the applicant would need a credit-worthy cosigner in order to be eligible for a loan. The cost of the credit check would be either the actual cost or $25.00, whichever is less, and may be paid by the applicant.

Section 208 requires an administrative fee not to exceed 5% be paid to the Secretary by the lender for SLS and PLUS loans.

Section 209 of the bill provides that to consolidate loans borrowed for a period of enrollment lasting one year or less a borrower must have at least $7,500 in eligible loans.

Section 210 of the bill establishes a new section 428G to the Act combining all requirements for the disbursement and endorsement of student loans.

The new section 428G(b) of the Act includes a new requirement that for first-year, first-time borrowers an institution may not en-

dorse a student loan until 30 days after the individual begins his or her course of study.

Section 211 of the bill provides for a 5 year pilot program to test the effect of extended forbearance and enhanced due diligence on student repayment.

Section 212 of the bill requires the Secretary, guaranty agency, eligible lender or holder of a loan to report to the appropriate credit bureau when a loan has been delinquent for 90 consecutive days. The borrower is also to be notified under this section that he or she is being reported to accredit bureau.

Section 213 requires that in order to be considered an eligible lender under this part, the lender must notify the appropriate guaranty agency of delinguent borrowers within 120 days of their becoming delinquent, and the guaranty agency will provide this information to the appropriate instutition upon its request.

Section 214 amends section 484(b) of the act by adding new paragraph (3) requiring a borrower to provide his or her driver's license number, if applicable, and the name and address of the borrower's next of kin to the lender when applying for a student loan.

Section 215 of the bill amends section 484(d) of the Act by adding a new paragraph requiring that a student may not qualify as an ability to benefit student if the course of study in which the student is enrolled or accepted is less than one year, and is one which requires certification by an agency other than the eligible institution in which the student is enrolled, and such certification requires a high school diploma or its equivalent in order to qualify.

Section 216 of the bill requires eligible institutions to require borrowers to provide their address, the name and address of their next-of-kin, and their drivers license, if applicable, during the exit interview.

Section 217 requires that an institution must make available to prospective students, at or before the time of application, and State licensing requirements for any job for which the course of instruction the student plans to follow is designed.

Section 218 of the bill amends section 487(a) of the Act by adding a new paragraph (11) to authorize institutions to withhold academic transcripts of borrowers who default on any Title IV loan. The new paragraph also allows institutions to waive this provision if such action would prevent the borrower from gaining employment and repaying the loan.

Section 219 of the bill amends section 487(a) of the Act by adding new paragraph (12) to prohibit an institution from using anyone other than a salaried employee of the institution or a volunteer to recruit or admit students. Further, this section prohibits the use of commission, bonus, or other incentive payments to any person engaged in these activities.

Section 220 of the bill further amends section 487(a) of the Act by requiring an institution to use the same definition of "academic year" for all programs authorized by Title IV.

Section 221 of the bill amends section 487(c)(l) by adding new paragraph (E) to authorize the Secretary to limit, suspend, or terminate an eligible institution, or impose civil penalty under section (2)(B) if the Secretary finds that the institution is engage in a contract with an individual or organization who has acted in violation

of Title IV of the Higher Education Act. Such action will occur when the Secretary determines that reasonable notice has been given to the institution, and the institution continues to engage in such contracts. Suspension will not exceed 60 days unless an agreement has been reached by the Secretary and the institution, or unless limitation, or termination proceedings are initiated by the Secretary.

Section 222 of the bill requires the Comptroller General to conduct a study relating to the discharge of Stafford Student Loan indebtedness in cases when a borrower declares bankruptcy, and to prepare a report on the results of the study to submit to Congress within 3 years.

TITLE III

Section 301 of the bill requires the Secretary to determine the annual default rate for the Stafford Student Loan program and to publish the findings in an annual report to Congress beginning December 31, 1988.

The Secretary is also required to determine the default rates of eligible institutions and guaranty agencies, in accordance with section 101(e) of this bill, and to prepare a list of those eligible institutions and guaranty agencies in the order of dollar volume (number of dollars) in default. The Secretary shall identify the highest 5 percent guaranty agencies and eligible institutions according to dollar value in default.

This section also provides for the Secretary to develop a plan and to publish it in the Federal Register concerning the conduct of program reviews for eligible lenders, guaranty agencies, and eligible institutions, and to place priority on program reviews for those institutions and guaranty agencies who have been found to be in the top 5 percent of institutions and guaranty agencies according to dollar value default.

The Secretary is also authorized under this section to collect successful ideas regarding default prevention techniques, and to publicize them.

Section 302 of the bill requires the Secretary to publish and disseminate the legal restrictions and requirements participants must follow in implementing the various laws and regulations of the Higher Education Act, including laws regarding privacy and fair debt collection practice.

Section 303 of the bill amends section 435 and 481 of the Act regarding the loss of accreditation by adding a new section to require that no institution be certified or recertified for program eligibility if the institution has had its institutional accreditation withdrawn, revoked or terminated during the preceeding 24 months, or has voluntarily withdrawn from such institutional accreditation. An exception is made if the institution has had its accreditation restored by the same accrediting agency, or if the institution can demonstrate academic integrity to the satisfaction of the Secretary.

Section 304 of the bill authorizes the Secretary to carry out limitation, suspension or termination proceedings against an institution if the institution voluntarily withdraws from institutional accreditation during a show cause or suspension hearing against the

institution, or if an institution is denied accreditation. This section also provides for the Secretary and the various accrediting agencies and associations to set up lines of communication to provide the Secretary with the information regarding which institutions lose or are denied institutional accreditation.

Section 305 of the bill further amends section 481(a) of the Act by adding new paragraph (3) which restricts the Secretary from recognizing the eligibility of an institution which is in the process of receiving new institutional accreditation unless the institution can show reasons for changing accrediting agencies or associations.

Section 306 of the bill requires that a toll-free hotline be made available to the public to report instances of fraud or abuse by institutions.

Section 307 amends section 485B(a) of the act to require the Secretary to set up and make operational by October 1, 1989 the National Student Loan Data System.

Part (b) of this section provides for more information to be made available to the Secretary on a quarterly basis regarding the status of Stafford Student Loans made, insured or guaranteed under this part, to be used by the Secretary to facilitate the usefulness of the National Student Loan Data System.

Section 308 of the bill provides that the Secretary may require any institution that has been found to be in violation of Title IV of the Act to refund the student's tuition and fees. Under this provision the Secretary is required to establish guidelines for making refunds first to the Federal Government, any portion of the tuition and fees that have been paid for by Title IV funds, and second to the lender, any portion of the tuition and fees attributable to any Title IV loans made or issued by that lender.

Part (c) establishes the date for this section to take effect to be 60 days after the enactment of the bill.

TITLE IV

Section 401 of the bill amends section 480(d) of the act to redefine an independent student to include the student who: (1) is an orphan or is or has been a ward of the court; (2) is married or has legal dependents; (3) is an undergraduate student who was not claimed by his or her parents or guardian as a dependent on income tax forms for the two years preceding the first year the student receives Title IV financial aid, and who either was awarded Title IV assistance the prior year or can demonstrate self-sufficiency to a financial aid officer for the two calendar years prior to the award year by showing an annual income of $4000.00, not including parental contributions or student aid.

Section 402 of the bill requires that in order to be counted among family members in college, each family member must be enrolled or accepted for enrollment in a program leading to a degree, certificate, or other recognized educational credential at an eligible institution.

Section 403 of the bill amends section 475(g)(1)(c) of the Act to reduce the amount of income a dependent student is expected to contribute to educational expenses from 70 percent to 50 percent.

Section 404 of the bill excludes the assets of dependent students from both the Pell Grant and the general needs analysis computation unless the assets are in excess of the amount the student is expected to contribute from discretionary income under section 411B(f) of the Act. This is done to prevent the double counting of a student's earnings first as income and, then, again as savings.

Section 405 of the bill reinstates financial aid officer discretion when it is necessary to adjust the cost of attendance figures or the amount a student, parent, or both are expected to contribute to educational expenses if circumstances warrant such action. This provision had been repealed by the Departments of Labor, Health and Human Services Appropriations Act of 1989.

Paragraph (b) further amends section 479A of the act by adding new subsection (c) to allow a financial aid officer to adjust the cost of attendance for an independent student with dependents if the student's income is less than the Standard Maintenance Allowance under section 477(b)(4) of the Act.

Subparagraph (b)(2) of this section allows a financial aid officer to exercise professional discretion when making adjustments for dislocated workers by using projected year income rather than the income reported on income tax forms the preceeding year, and by excluding the value of any investments, and real estate from the calculation of expected family contribution for the Pell Grant Program.

Subparagraph (b)(3) provides for a financial aid officer to exercise professional discretion when dealing with a displaced homemaker by excluding the value of any investments and real estate, including home assets when calculating the Pell Grant expected family contribution.

Section 406 of the bill provides that a student's total veterans' education benefits be included in determining an individual's need in both the Pell Grant needs analysis and the general needs analysis.

Section 407 of the bill provides for changes in sections 4112F(2) and 480(g) of the Act to exclude home, farm, or small business assets from the Pell Grant needs analysis and the general needs analysis for a family with an annual adjusted gross income of $30,000.00 or less.

TITLE V

Section 501 of the bill clarifies the number of years that a person may be eligible to receive a Pell Grant to the number of academic years that are normally required to obtain the particular undergraduate degree or certificate plus one year.

Section 502 of the bill modifies section 443(b)(4) of the Act to require that institutions' responsibility for monitoring term-time or within award year, non-need-based earnings be discontinued and these earnings be considered as base year income for the next academic year. Any earnings that are part of an aid package (i.e. college work study, or another need-based work program) will continue to be monitored as within year resources, but not considered as base year income or assets the next year.

Section 503 of the bill clarifies which types of health care professionals are eligible for the two-year deferments available in current law under sections 427(a)(2)(C)(vii), 428(b)(2)(A)(vii), and 464(c)(2)(A)(vi).

Section 504 of the bill amends section 439(c) of the bill to provide for a change in the composition of the Board of Directors for the Student Loan Marketing Association (Sallie Mae), the terms of the elected and appointed members of the Board, the election of the Chairman of the Board by the Board members, the meetings and functions of the Board, and to establish that there be a single class of voting common stock, as opposed to voting common stock and non-voting common stock. Previously held non-voting stock shall be converted, share-for-share, to voting stock.

Section 505 of the bill provides that the common federal student aid application form contain the minimum data elements necessary for the Secretary to determine a student's financial need, and provides also for the collection and use of additional data. This section further amends section 483(a)(2) by requiring a competitive bidding process to determine qualified processors and also setting the criteria for participating in the bidding process.

Subpart (b) of this section amends section 483(f) of the Act to require eligible institutions to provide a statement to students receiving financial assistance specifically indicating what and how much of the award to the recipient is federal aid instead of mandating the Federal Student Aid Receipt.

Section 506 of the bill provides for consortia of institutions of higher education to apply for grants under the Patricia Roberts Harris Fellowship Program.

Section 507 of the bill provides that the revised audit provisions similar to those in the reauthorization of the Elementary and Secondary Education Act be applicable to the Higher Education Act of 1965.

TITLE VI

Section 601 establishes that the provisions of this bill, unless otherwise noted, shall become effective for any determination of need made for any period of enrollment which begins 60 days after the date of enactment.

Subsection (b)(1) of this section establishes that the amendments made by title I of this bill, and sections 406, 504, and 505 shall take effect on the date of enactment.

Subsection (b)(2) of this section establishes the date of enactment for amendments made by title IV of this bill (excluding section 406) and sections 501 and 502 to be for the award year 1990–1991 and thereafter.

IX. Changes in Existing Law

Higher Education Act of 1965

(P.L. 89-329)

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Higher Education Act of 1965."

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TITLE III—INSTITUTIONAL AID

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Sec. 301-311 * * *

DEFINITIONS; ELIGIBILITY

Sec. 312. (a) Educational and General Expenditures.—For the purpose of this part, the term "educational and general expenditures" means the total amount expended by an institution of higher education for instruction, research, public service, academic support (including library expenditures), student services, institutional support, scholarships and fellowships, operation and maintenance expenditures for the physical plant, and any mandatory transfers which the institution is required to pay by law.

(b) Eligible Institution.—For the purpose of this part, the term "eligible institution" means—

(1) an institution of higher education—

(A) which has an enrollment of needy students as required by subsection (c) of this section;

(B) except as provided in section 352(b), the average educational and general expenditures of which are low, per full-time equivalent undergraduate student, in comparison with the average educational and general expenditures per full-time equivalent undergraduate student of institutions that offer similar instruction;

(C)(i) which is legally authorized to provide, and provides within the State, an educational program for which it awards a bachelor's degree, or (ii) which is a junior or community college;

(D) which is accredited by a nationally recognized accrediting agency or association determined by the Secretary to be reliable authority as to the quality of training offered or which is, according to such an agency or association, making reasonable progress toward accredition;

(E) Except as provided in section 352(b) which has, during the 5 academic years proceding the academic year for which it seeks assistance under this part—

(i) met the requirement of either subparagraph (C)(i) or (C)(ii), or of both such subparagraphs (simulaneously or consecutively); and

(ii) met the requirement of subparagraph (D); and

(F) which meets such other requirements as the Secretary may prescribe;

(2) any branch of any institution of higher education described under paragraph (1) which by itself satisfies the requirements contained in subparagraphs (A) and (B) of such paragraph;

(3) any institution of higher education which has an enrollment of which at least 20 percent are Mexican American, Puerto Rican, Cuban, or other Hispanic students, or combination thereof, and which also satisfies the requirements of subparagraphs (A), (B), (C), and (D) of paragraph (1);

(4) any institution of higher education which has an enrollment of at least 60 percent American Indian, or in the case of Alaska natives, an enrollment of at least 5 percent, and which also satisfies the requirements of subparagraphs (A), (B), (C), and (D) of paragraph (1); and

(5) any institution of higher education which has an enrollment of which at least 5 percent are Native Hawaiian, Asian American, American Samoan, Micronesian, Guamian (Chamorro), and Northern Marianian, or any combination thereof, and which also satisfies the requirements of subparagraphs (A), (B), (C), and (D) of paragraph (1).

For purposes of the determination of whether an institution is an eligible institution under this paragraph, the factor described under paragraph (1)(A) shall be given twice the weight of the factor described under paragraph (1)(B).

(c) ENROLLMENT OF NEEDY STUDENTS.—For the purpose of this part, the term "enrollment of needy students" means an enrollment at an institution of higher education or a junior or community college which includes—

(1) at least 50 percent of the degree students so enrolled who are receiving need-based assistance under title IV of this Act in the second fiscal year preceding the fiscal year for which the determination is being made (other than loans for which an interest subsidy is paid pursuant to section 428), or

(2) a substantial percentage of students receiving Pell Grants in the second fiscal year preceding the fiscal year for which determination is being made, in comparison with the percentage of students receiving Pell Grants at all such institutions in second preceding fiscal year, unless the requirement of this subdivision is waived under section 352(a).

(d) FULL-TIME EQUIVALENT STUDENTS.—For the purpose of this part, the term "full-time equivalent students" means the sum of the number of students enrolled full time at an institution, plus the full-time equivalent of the number of students enrolled part time (determined on the basis of the quotient of the sum of the credit hours of all part-time students divided by 12) at such institution.

(e) JUNIOR OR COMMUNITY COLLEGE.—For the purpose of this part, the term "junior or community college" means an institution of higher education—

(1) that admits as regular students persons who are beyond the age of compulsory school attendance in the State in which the institution is located and who have the ability to benefit from the training offered by the institution;

(2) that does not provide an educational program for which it awards a bachelor's degree (or an equivalent degree); and

(3) that—

(A) provides an educational program of not less than 2 years that is acceptable for full credit toward such a degree, or

(B) offers a 2-year program in engineering, mathematics, or the physical or biological sciences, designed to prepare a student to work as a technician or at the semiprofessional level in engineering, scientific, or other technological fields requiring the understanding and application of basic engineering, scientific, or mathematical principles of knowledge.

(f) HISTORICALLY BLACK COLLEGE OR UNIVERSITY.—For the purposes of this section, no historically black college or university which is eligible for and receives funds under part B of this title is eligible for or may receive funds under this part.

SEC. 313–321. * * *

DEFINITIONS

SEC. 322. For the purpose of this part:

The term "graduate" means an individual who has attended an institution for at least three semesters and fulfilled academic requirements for undergraduate studies in not more than 5 consecutive school years.

(2) The term "part B institution" means any historically Black college or university that was established prior to 1964, whose principal mission was, and is, the education of Black Americans, and that is accredited by a nationally recognized accrediting agency or association determined by the Secretary to be a reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation, except that any branch campus of a southern institution of higher education that prior to September 30, 1986, received a grant as an institution with special needs under section 321 of this title and was formally recognized by the National Center for Education Statistics as a Historically Black College or University but was determined not to be a part B institution on or after October 17, 1986, shall, from the date of enactment of this exception, be considered a part B institution.

(3) The term "Pell Grant recipient" means a recipient of financial aid under subpart 1 of part A of title IV of this Act.

(4) The term "professional and academic areas in which Blacks are underrepresented" shall be determined by the Secretary and the Commissioner of the Bureau of Labor Statistics, on the basis of the most recent available satisfactory data, as professional and academic areas in which the percentage of Black Americans who have been educated, trained, and employed is less than the percentage of Blacks in the general population.

(5) The term "school year" means the period of 12 months beginning July 1 of any calendar year and ending June 30 of the following calendar year.

GRANTS TO INSTITUTIONS

SEC. 323. (a) GENERAL AUTHORIZATION; USES OF FUNDS.—From amounts available under section 360(a)(2) in any fiscal year the Secretary shall make grants (under section 324) to institutions which have applications approved by the Secretary (under section 325) for any of the following uses:

(1) Purchase, rental, or lease of scientific or laboratory equipment for educational purposes, including instructional and research purposes.

(2) Construction, maintenance, renovation, and improvement in classroom, library, laboratory, and other instructional facilities.

(3) Support of faculty exchanges, and faculty development and faculty fellowships to assist in attaining advanced degrees in their field of instruction.

(4) Academic instruction in disciplines in which Black Americans are underrepresented.

(5) Purchase of library books, periodicals, microfilm, and other educational materials.

(6) Tutoring, counseling, and student service programs designed to improve academic success.

(7) Funds and administrative management, and acquisition of equipment for use in strengthening funds management.

(8) Joint use of facilities, such as laboratories and libraries.

(b) LIMITATIONS.—(1) No grant may be made under this Act for any educational program, activity, or service related to sectarian instruction or religious worship, or provided by a school or department of divinity. For the purpose of this subsection, the term "school or department of divinity" means an institution whose program is specifically for the education of students to prepare them to become ministers of religion or to enter upon some other religious vocation, or to prepare them to teach theological subjects.

(2) Not more than 50 percent of the allotment of any institution may be available for the purpose of constructing or maintaining a classroom, library, laboratory, or other instructional facility.

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BASIC EDUCATIONAL OPPORTUNITY GRANTS: AMOUNT AND DETERMINATIONS; APPLICATIONS

SEC. 411. (a) PROGRAM AUTHORITY AND METHOD OF DISTRIBUTION.—(1) The Secretary shall, during the period beginning July 1, 1972, and ending September 30, 1992, pay to each eligible institution such sums as may be necessary to pay to each eligible student (defined in accordance with section 484) for each academic year during which that student is in attendance at an institution of higher education, as an undergraduate, a basic grant in the amount for which that student is eligible, as determined pursuant to paragraph (2). Not less than 85 percent of such sums shall be advanced to eligible institutions prior to the start of each payment

period and shall be based upon an amount requested by the institution as needed to pay eligible students.

(2) Nothing in this section shall be interpreted to prohibit the Secretary from paying directly to students, in advance of the beginning of the academic term, an amount for which they are eligible, in cases where the eligible institution elects not to participate in the disbursement system required by paragraph (1).

(3) Basic grants made under this subpart shall be known as "Pell Grants".

(b) PURPOSE AND AMOUNT OF GRANTS.—(1) The purpose of this subpart is to provide a basic grant that (A) as determined under paragprah (2), will meet 60 percent of a student's cost of attendance (as defined in section 411F); and (B) in combination with reasonable parental or independent student contribution and supplemented by the programs authorized under subparts 2 and 3 of this part, will meet 75 percent of a student's cost of attendance (as defined in section 472), unless the institution determines that a greater amount of assistance would better serve the purposes of section 401.

(2)(A) The amount of the basic grant for a student eligible under this part shall be—

(i) $2,300 for academic year 1987–1988,
(ii) $2,500 for academic year 1988–1989,
(iii) $2,700 for academic year 1989–1990,
(iv) $2,900 for academic year 1990–1991, and
(v) $3,100 for academic year 1991–1992,

less an amount equal to the amount determined to be the expected family contribution with respect to that student for that year.

(B) In any case where a student attends an institution of higher education on less than a full-time basis during any academic year, the amount of the basic grant to which that student is entitled shall be reduced in proportion to the degree to which that student is not so attending on a full-time basis, in accordance with a schedule of reductions established by the Secretary for the purposes of this division. Such schedule of reductions shall be established by regulation and published in the Federal Register in accordance with section 482 of this Act.

(3) The amount of a basic grant to which a student is entitled under this subpart for any academic year shall not exceed 60 percent of the cost of attendance (as defined in section 411F) at the institution at which the student is in attendance for that year.

(4) No basic grant under this subpart shall exceed the difference between the expected family contribution for a student and the cost of attendance (as defined in section 411F) at the institution at which that student is in attendance. If, with respect to any student, it is determined that the amount of a basic grant plus the amount of the expected family contribution for that student exceeds the cost of attendance for that year, the amount of the basic grant shall be reduced until the combination of expected family contribution and the amount of the basic grant does not exceed the cost of attendance at such institution.

(5) No basic grant shall be awarded to a student under this subpart if the amount of that grant for that student as determined under this subsection for any academic year is less than $200.

(6) No basic grant shall be awarded under this subpart to any student who is attending on a less than half-time basis—

(A) from funds appropriated for fiscal years before fiscal year 1989;

(B) from funds appropriated for fiscal year 1989 or 1990, unless the expected family contribution for such student is less than or equal to zero; or

(C) from funds appropriated for fiscal year 1991, unless the expected family contribution for such student is less than or equal to $200.

(7) No basic grant shall be awarded under this subpart from funds appropriated for fiscal year 1989 to students who are attending on a less than half-time basis if awarding basic grants to such students would cause basic grants to other students to be reduced pursuant to subsection (g). The provisions of this paragraph may not be waived unless enacted in express limitation of this paragraph.

(c) PERIOD OF ELIGIBILITY FOR GRANTS.—The period during which a student may receive basic grants shall be the period required for the completion of the first undergraduate baccalaureate course of study being pursued by that student at the institution at which the student is in attendance except that—

(A) such period may not exceed the full-time equivalent of—

[(i) 5 academic years in the case of an undergraduate degree or certificate program normally requiring 4 years or less;

[(ii) 6 academic years in the case of an undergraduate degree or certifcate program nomrally requiring more than 4 years;]

(i) the number of academic years (or portion of an academic year) that the undergraduate degree or certificate program normally requires, plus one academic year; or

(ii) 6 academic years in the case of a undergraduate degree or certificate program normally requiring more than 4 academic years;

(B) any period during which the student is enrolled in a noncredit or remedial course of study as defined in paragraph (2) shall not be counted for the purpose of subparagraph (A); and

(C) an institution of higher education at which the student is in attendance may waive subparagraph (A) for undue hardship based on—

(i) the death of a relative of the student;

(ii) the personal injury or illness of the student; or

(iii) special circumstances as determined by the institution.

(2) Nothing in this section shall exclude from eligibility courses of study which are noncredit or remedial in nature (including courses in English language instruction) which are determined by the institution to be necessary to help the student be prepared for the pursuit of a first undergraduate baccalaureate degree or certificate or, in the case of courses in English language instruction, to be necessary to enable the student to utilize already existing knowledge, training, or skills.

(3) No student is entitled to receive Pell Grant payments concurrently from more than one institution or from the Secretary and an institution.

* * * * * * *

SEC. 411A. * * *

ELIGIBILITY DETERMINATION FOR DEPENDENT STUDENTS

SEC. 411B. (a) COMPUTATION OF STUDENT AID INDEX.—For each dependent student, the student aid index is equal to the sum of—

(1) the contribution from parents' income and assets, determined in accordance with subsection (b);

(2) the contribution from student's (and spouse's) income, determined in accordance with subsection (h); and

(3) the contribution from student's (and spouse's) assets, determined in accordance with subsection (l).

(b) CONTRIBUTION FROM PARENTS' INCOME AND ASSETS.—The parents' contribution from income and assets is equal to the amount determined by—

(1) computing the standard contribution from parents' income, determined in accordance with subsection (c);

(2) adding the contribution from parents' assets, determined in accordance with subsection (g); and

(3) dividing the resultant amount by the number of family members who will be attending, on at least a half-time basis, [a program of postsecondary education] *a program of postsecondary education which meets the requirements of section 484(a)(1)* during the award period for which aid under this subpart is requested.

(c) STANDARD CONTRIBUTION FROM PARENTS' INCOME.—The standard contribution from parents' income is determined by calculating the effective family income in accordance with subsection (d); by deducting the total offsets against income, as determined in accordance with subsection (e); and by assessing the results in accordance with subsection (f).

(d) DETERMINATION OF EFFECTIVE FAMILY INCOME.—The effective family income is equal to—

(1) the sum of—

(A) the adjusted gross income of the parents as reported to the Internal Revenue Service for the year immediately preceding the award year, and income earned from work but not reported on a Federal income tax return, less any excludable income (as defined in section 411F(9));

(B) the total annual amount of untaxed income and benefits, received by the parents in the year immediately preceding the award year; and

(C) [one-half of the student's total veterans educational benefits, excluding Veterans' Administration contributory benefits,] *the student's total veterans educational benefits* expected to be received during the award period, minus

(2) the sum of—

(A) the amount of United States income tax paid or payable by the parents in the tax year preceding the award year; and

(B) an allowance for State and other taxes, as determined by multiplying the parents' total income (as determined under paragraph (1)) by a percentage determined according to the following table:

Percentages for Computation of State and Other Tax Allowance

If parents' State or territory of residence is—	And parents' total income is—	
	less than $15,000	$15,000 or more
	then the percent is—	
Alaska, Puerto Rico, Wyoming	3	2
American Samoa, Guam, Louisiana, Nevada, Texas, Trust Territory, Virgin Islands	4	3
Florida, South Dakota, Tennessee, New Mexico	5	4
North Dakota, Washington	6	5
Alabama, Arizone, Arkansas, Indiana, Mississippi, Missouri, Montana, New Hampshire, Oklahoma, West Virginia	7	6
Colorado, Connecticut, Georgia, Illinois, Kansas, Kentucky	8	7
California, Delaware, Idaho, Iowa, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Utah, Vermont, Virginia, Canada, Mexico	9	8
Maine, New Jersey	10	9
District of Columbia, Hawaii, Maryland, Massachusetts, Oregon, Rhode Island	11	10
Michigan, Minnesota	12	11
Wisconsin	13	12
New York	14	13

(e) TOTAL OFFSETS AGAINST INCOME.—Total offsets against income are determined by deducting—

(1) a family size offset as determined by the following table:

Family Size Offsets

Family members	Amount
2	$6,700
3	8,100
4	10,400
5	12,300
6	13,800
7 or more	13,800 plus $1,800 for each member over 6

(2) an offset for unusual medical and dental expenses;

(3) an offset for employment expenses; and

(4) an offset for unreimbursed elementary and secondary school tuition and fees.

(f) ASSESSMENT OF DISCRETIONARY INCOME.—(1) The discretionary income that is assessed under this subsection is equal to (A) the effective family income (as determined under subsection (d)), minus (B) the total offsets to such income (as determined under subsection

(e)). If such discretionary income is a negative amount, the contribution from the parents' income is zero.

(2) If such discretionary income is a positive amount, the standard contribution from discretionary income is determined in accordance with the following chart:

Discretionary income	Expected contribution
$0 to $5,000	11% of discretionary income.
$5,001 to $10,000	$550, plus 13% of amount over $5,000.
$10,001 to $15,000	$1,200, plus 18% of amount over $10,000.
$15,001 and above	$2,100, plus 25% of amount over $15,000.

(g) CONTRIBUTION FROM PARENTS' ASSETS.—The standard contribution from parents' assets is determined in accordance with paragraphs (1) through (6):

(1) If the parental assets include a principal place of residence, deduct $30,000 from the net value of the principal place of residence, [except that in the case of a dislocated worker (certified in accordance with title III of the Job Training Partnership Act) or a displaced homemaker (as defined in section 480(e) of this Act), the net value of a principal place of residence shall be considered to be zero]. If the subtraction required by the preceding sentence of this paragraph produces a negative number, the amount determined under this paragraph shall be zero.

(2) If the parental assets include assets other than a principal place of residence and other than farm and business assets, deduct $25,000 from the net value of those other assets. If the subtraction required by the preceding sentence of this paragraph produces a negative number, the amount determined under this paragraph shall be zero.

(3) If the parental assets include farm or business assets, or both, deduct $80,000 in the case of business assets or $100,000 in the case of farm assets from the net value of the farm or business assets, or both. If the subtraction required by the preceding sentence of this paragraph produces a negative number, the amount determined under this paragraph shall be zero.

(4) If the sum of the farm and business deduction and the deductions in paragraphs (1) and (2) exceeds $110,000 in the case of business deductions or $130,000 in the case of farm deductions, the farm and business deduction shall be reduced by the amount that that sum exceeds $110,000, or $130,000, as the case may be.

(5)(A) The expected contribution from parental assets equals 5 percent of the total of the amounts obtained under paragraphs (1), (2), and (3).

(B) If the calculation of effective family income required by subsection (d) produces a negative number, the expected contribution from parental assets, calculated under this paragraph, shall be reduced by the amount of that negative effective family income. If the subtraction required by the preceding sentence of this subparagraph produces a negative number, the amount determined under this subparagraph shall be zero.

(6)(A) If the student's parents are separated, or divorced and not remarried, only the assets of the parent whose income is included in computing annual adjusted family income shall be considered.

(B) If that parent has remarried, or if the parent was a widow or widower who has remarried, and the parent's spouse's income also is included in computing effective family income, the assets of that parent's spouse shall also be included.

(h) CONTRIBUTION FROM STUDENT'S (AND SPOUSE'S) INCOME.—The contribution from student's (and spouse's) income is determined by calculating the student's (and spouse's) effective income, as determined in accordance with subsection (i), by deducting the total offsets against income, as determined in accordance with subsection (j), and by assessing the results in accordance with subsection (k).

(i) DETERMINATION OF STUDENT'S (AND SPOUSE'S) EFFECTIVE INCOME.—The effective income of the student (and spouse) is equal to—

(1) the sum of—

(A) the adjusted gross income of the student (and spouse) as reported to the Internal Revenue Service for the year immediately preceding the award year, or income earned from work, but not reported on a Federal income tax return, less any excludable income (as defined in section 411F(9)); and

(B) the total annual amount of untaxed income and benefits received by the student (and spouse) in the year immediately preceding the award year; minus

(2) the amount of United States income tax paid or payable by the student (and spouse) in the tax year preceding the award year.

(j) TOTAL OFFSETS AGAINST STUDENT'S (AND SPOUSE'S) INCOME.—Total offsets against student's (and spouse's) income are determined by deducting—

(1) a dependent student offset of $3,500, or $5,100 in the case of a dependent student with a spouse; and

(2) if the parental discretionary income (as determined under subsection (f)) is a negative amount, the amount, if any, by which the result of the subtraction performed under subsection (g)(5) is less than zero.

(k) ASSESSMENT OF STUDENT'S (AND SPOUSE'S) INCOME.—If the student's (and spouse's) effective income (as determined under subsection (i)) minus the total offsets (as determined under subsection (j)) is a negative amount, the contribution from student income is zero. If the student's (and spouse's) effective income is a positive amount, multiply it by 75 percent to determine the contribution from student's income.

(l) DETERMINATION OF CONTRIBUTION FROM STUDENT'S (AND SPOUSE'S) ASSETS.—The contribution from the student's (and spouse's) assets is determined by calculating the net assets of the student (and spouse) and multiplying the amount by 33 percent, [except that in the case of a student who is a dislocated worker (certified in accordance with title III of the Job Training Partnership Act) or a displaced homemaker (as defined in section 480(e) of

this Act), the net value of a principal place of residence shall be considered to be zero].

ELIGIBILITY DETERMINATION FOR INDEPENDENT STUDENTS WITH DEPENDENTS OTHER THAN A SPOUSE

SEC. 411C. (a) COMPUTATION OF STUDENT AID INDEX.—For independent students with dependents other than a spouse, the student aid index is equal to the amount determined by—

(1) computing the standard contribution from student's (and spouse's) income determined in accordance with subsection (b);

(2) adding the contribution from student's (and spouse's) assets determined in accordance with subsection (f); and

(3) dividing the resultant amount by the number of family members who will be attending, on at least a half-time basis, [a program of postsecondary education] *a program of postsecondary education which meet the requirements of section 484(a)(1),* during the award period for which aid under this subpart is requested.

(b) COMPUTING THE STANDARD CONTRIBUTION FROM STUDENT'S (AND SPOUSE'S) INCOME.—The standard contribution from the student's (and spouse's) income is determined by calculating the effective family income in accordance with subsection (c); by deducting the total offsets against income, as determined in accordance with subsection (d); and by assessing the result in accordance with subsection (e).

(c) DETERMINATION OF EFFECTIVE FAMILY INCOME.—The effective family income is equal to—

(1) the sum of—

(A) the adjusted gross income of the student (and spouse) as reported to the Internal Revenue Service for the year immediately preceding the award year and income earned from work, other than amounts received under part C of this title, but not reported on a Federal income tax return, less any excludable income (as defined in section 411F(9));

(B) the total annual amount of untaxed income and benefits which is received by the student (and spouse) in the year immediately preceding the award year; and

(C) [one-half of the student's total veterans educational benefits, excluding Veterans' Administration contributory benefits,] *the student's total veterans educational benefits* expected to be received during the award period; minus

(2) the sum of—

(A) the amount of United States income tax paid or payable by the student (and spouse) in the tax year preceding the award year; and

(B) an allowance for State and other taxes as determined by multiplying the student's (and spouse's) total income (as determined under paragraph (1)) by a percentage determined according to the following table:

Percentages for Computation of State and Other Tax Allowance

If student's State or territory of residence is—	And student's (and spouse's total income is—	
	less than $15,000	$15,000 or more
	then the percentage is—	
Alaska, Puerto Rico, Wyoming	3	2
American Samoa, Guam, Louisiana, Nevada, Texas, Trust Territory, Virgin Islands	4	3
Florida, South Dakota, Tennessee, New Mexico	5	4
North Dakota, Washington	6	5
Alabama, Arizona, Arkansas, Indiana, Mississippi, Missouri, Montana, New Hampshire, Oklahoma, West Virginia	7	6
Colarado, Connecticut, Georgia, Illinois, Kansas, Kentucky	8	7
California, Delaware, Idaho, Iowa, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Utah, Vermont, Virginia, Canada, Mexico	9	8
Maine, New Jersey	10	9
District of Columbia, Hawaii, Maryland, Massachusetts, Oregon, Rhode Island	11	10
Michigan, Minnesota	12	11
Wisconsin	13	12
New York	14	13

(d) TOTAL OFFSETS AGAINST INCOME.—Total offsets against income are determined by deducting—

(1) a family size offset equal to the amount specified in the following table:

Family Size Offsets

Family members	Amount
	then the percentage is—
2	$6,700
3	8,100
4	10,400
5	12,300
6	13,800
7 or more	13,800 plus $1,800 for each member over 6

(2) an offset for unusual medical and dental expenses;

(3) in the case of a married independent student when both the student and spouse wre employed in the year for which income is reported, or in the case of a student who qualifies as a head of household as defined in section 2 of the Internal Revenue Code of 1988 an offset for employment expenses; and

(4) an offset for unreimbursed elementary and secondary school tuition and fees.

(e) ASSESSMENT OF DISCRETIONARY INCOME.—(1) The discretionary income that is assessed under this subsection is equal to (A) the ef-

fective family income (as determined under subsection (c)), minus (B) the total offsets to such income (as determined under subsection (d)). If such discretionary income is a negative amount, the contribution from the student's (and spouse's) income is zero.

(2) If such discretionary income is a positive amount, the standard contribution form discretionary income is determined in accordance with the following chart:

Discretionary income	Expected contribution income
$0 to $5,000	11% of discretionary income.
$5,001 to $10,000	$550, plus 13% of amount over $5,000.
$10,001 to $15,000	$1,200, plus 18% of amount over $10,000.
$15,001 and above	$2,100, plus 25% of amount over $15,000.

(f) CONTRIBUTION FROM STUDENT'S (AND SPOUSE'S) ASSETS.—The standard contribution from student's (and spouse's) assets is determined in accordance with paragraphs (1) through (6)—

(1) If the student's (and spouse's) assets include a principal place of residence, deduct $30,000 from the net value of the principal place of residence, [except that in the case of a dislocated worker (certified in accordance with title III of the Job Training Partnership Act) or a displaced homemaker (as defined in section 480(e) of this Act), the net value of a principal place of residence shall be considered to be zero]. If the subtraction required by the preceding sentence of this paragraph produces a negative number, the amount determined under this paragraph shall be zero.

(2) If the student's (and spouse's) assets include assets other than a principal place of residence and other than farm and business assets, deduct $25,000 from the net value of those other assets. If the subtraction required by the preceding sentence of this paragraph produces a negative number, the amount determined under this paragraph shall be zero.

(3) If the student's (and spouse's) assets include farm or business assets, or both, deduct $80,000 in the case of business assets or $100,000 in the case of farm assets from the net value of the farm or business assets, or both. If the subtraction required by the preceding sentence of this paragraph produces a negative number, the amount determined under this paragraph shall be zero.

(4) If the sum of the farm and business deducation and the deductions in paragraphs (1) and (2) exceeds $110,000 in the case of business deductions or $130,000 in the case of farm deductions, the farm and business deduction shall be reduced by the amount that that sum exceeds $110,000, or $130,000, as the case may be.

(5)(A) The expected contribution from student's (and spouse's) assets equals 5 percent of the total of the amounts obtained under paragraphs (1), (2), and (3).

(B) If the assessment of discretionary income under subsection (e) produces a negative number, the expected contribution from student's (and spouse's) assets, calculated under this paragraph, shall be reduced by the amount of that negative effective family income. If the subtraction required by the preced-

ing sentence of this subparagraph produces a negative number, the amount determined under this subparagraph shall be zero.

(6) If the married independent student with dependents is separated or divorced, only assets of the independent student shall be considered.

DEFINITIONS; DETERMINATIONS

SEC. 411D–411E * * *

SEC. 411F. For the purpose of this subpart—

(1) The term "annual adjusted family income" means the sum received in the year immediately preceding the award year, by the student's parents (in the case of a dependent student), or by the student and, if applicable, the student's spouse (in the case of an independent student), except excludable income under paragraph (9) of this subsection, from the following sources subject to the following rules:

(A) Adjusted gross income, as defined in section 62 of the Internal Revenue Code of 1986.

(B) Untaxed income and benefits, as defined in paragraph (15) of this section.

(C) Income from one-half of any veteran's benefits expected to be paid to the student during the award period under chapters 34 to 35 of title 38 of the United States Code.

(D) Income for a student whose parents are divorced or separated is determined under the following procedures:

(i) Include only the income of the parent with whom the student resided for the greater portion of the 12-month period preceding the date of the application.

(ii) If the preceding criterion does not apply, include only the income of the parent who provided the greater portion of the student's support for the 12-month period preceding the date of application.

(iii) If neither of the preceding criteria apply, include only the income of the parent who provided the greater support during the most recent calendar year for which parental support was provided.

(E) Income in the case of the death of any parent as follows:

(i) If either of the parents have died, the student shall include only the income of the surviving parent.

(ii) If both parents have died, the student shall not report any parental income.

(F) Income in the case of a parent whose income is taken into account under subparagraph (D) of this paragraph, or a parent who is a widow or widower and whose income is taken into account under clause (i) of this subparagraph, has remarried, under the following rule: The income of that parent's spouse shall be included in determining the student's annual adjusted family income if—

(i) the student's parent and the stepparent are married as of the date of application for the award year concerned; and

(ii) the student is not an independent student.

[(G)(i) Income in the case of a dislocated worker shall be the income for the year for which the determination is made.

[(ii) For the purpose of this subparagraph, a dislocated worker is a worker identified pursuant to title III of the Job Training Partnership Act.]

(2)*(A)* The term "assets" means cash on hand, including amount [1] in checking and savings accounts, time deposits, money market funds, trusts, stocks, bonds, other securities, mutual funds, tax shelters, and the net value of real estate, income producing property, and business and farm assets. *No cash on hand or other property (or interest therein) of a dependent student shall be treated as an asset of the student (or spouse) for purposes of section 411B(1) except to the extent that such cash or property exceeds the amount the student is required to contribute from discretionary income under section 411B(f).*

(B) For academic year 1990–1991 and succeeding academic years, the term 'assets' shall not include, in the case of a family with an adjusted gross income which is equal to or less than $30,000, the net value of—

(i) the family's principal place of residence;

(ii) a family farm (as that term is defined in regulations prescribed by the Secretary of Agriculture pursuant to the Consolidated Farm and Rural Develoment Act) on which the family resides; or

(iii) a small business (as that term is defined in regulations prescribed by the Administrator of the Small Business Administration pursuant to Small Business Act) substantially owned and managed by a member or members of the family.

The Secretary shall, by regulation, provide criteria for determining whether a small business is substantially owned and managed by a member or members of the family.

(3) The term "award year" is the period of time between July 1 of the first year and June 30 of the following year.

(4) The term "business assets" means property that is used in the operation of a trade or business, including real estate, inventories, buildings, machinery, and other equipment, patents, franchise rights, and copyrights.

(5) The term "cost of attendance" means—

(A) the tuition and uniform compulsory fees normally charged a full-time student at the institution at which the student is in attendance for any award year, plus

(B)(i) an allowance for room and board costs, books, supplies, transportation, and miscellaneous expenses incurred by the student which shall not exceed $1,700 for a student without dependents residing at home with parents;

(ii) an allowance for room and board costs, books, supplies, transportation, and miscellaneous expenses incurred by the student which shall not exceed $2,300 for all other students, subject to clause (iii);

(iii) an allowance for only books, supplies, and transportation (as determined by the institution) and dependent care expenses (in accordance with clause (iv)) for less than half-time students (as determined by the institution);

(iv) an allowance for child care which shall not exceed $1,000; and

(v) an allowance for the costs of special services and equipment required for attendance by the handicapped that are not provided by other assisting agencies;

except that, if the maximum award under this subpart is less than or greater than $2,300, then the dollar amounts specified in clauses (i) and (ii) of subparagraph (B) of this paragraph shall be increased or decreased by an amount equal to the amount by which such maximum award is greater than or less than $2,300, respectively.

(6) Except as otherwise provided, the term (A) "dependent of the student" means the student's spouse, the student's dependent children, and other persons who live with and receive more than one-half of their support from the student and will continue to receive more than half of their support from the student during the award year; and (B) the term "dependent of the parent" means the parents of the student, the student, any of the student's dependent children, dependent children of the student's parents, including those children who are deemed to be dependent students when applying for aid under this title, and other persons who live with and receive more than one-half of their support from the parents and will continue to receive more than half of their support from the parents during the award year.

(7) Effective family income shall be determined on the basis of the annual adjusted family income minus the Federal taxes and imputed State and other taxes paid or payable for the year that adjusted gross income is used in the calculation of the student's Pell Grant.

(8)(A) The employment expense offset is determined as follows:

(i) If both parents were employed in the year for which their income is reported and both have their incomes reported in determining the expected family contribution, such offset is equal to the lesser of $1,500 or 50 percent of the earned income (income earned by work) of the parent with the lesser earned income.

(ii) If a parent qualifies as a head of household as defined in section 2 of the Internal Revenue Code of 1986, such offset is equal to the lesser of $1,500 or 50 percent of the parent's earned income.

(B) The employment expense offset in the case of an independent student with dependents is determined as follows:

(i) If both the student and the student's spouse were employed in the year for which their income is reported and both have their incomes reported in determining the expected family contribution, such offset is equal to the lesser of $1,500 or 50 percent of the earned income (income

earned by work) of the spouse with the lesser earned income.

(ii) If a student qualifies as a head of household as defined in section 2 of the Internal Revenue Code of 1986, such offset is equal to the lesser of $1,500 or 50 percent of the student's earned income.

(9)(A) The term "excludable income" means the income described in subparagraphs (B) through (E) of this paragraph which is excluded for the purpose of determining "annual adjusted family income" under paragraph (1).

(B) For a Native American Student, the annual adjusted family income does not include any income and assets of $2,000 or less per individual payment received by the student (and spouse) and student's parents under the Per Capita Act or the Distribution of Judgment Funds Act or any income received by the student (and spouse) and student's parents under the Alaska Native Claims Settlement Act or the Maine Indians Claims Settlement Act.

(C) In the case of a student who is divorced or separated, or whose spouse has died, the spouse's income shall not be considered in determining the effective family income.

(D) The annual adjusted family income does not include any student financial assistance (including any income earned from work under part C of this title) except veterans' or Social Security benefits set forth in paragraph (15) of this subsection.

(E) Annual adjusted family income does not include any unemployment compensation received by a dislocated worker certified in accordance with title III of the Job Training Partnership Act.

(10)(A) In determining family size in the case of a dependent student—

(i) if the parents are not divorced or separated, family members include the student's parents, and the dependents of the student's parents including the student;

(ii) if the parents are divorced or separated, family members include the parent whose income is included in computing the effective family income and that parent's dependents, including the student; and

(iii) if the parents are divorced and the parent whose income is so included is remarried, or if the parent was a widow or widower who has remarried, family members also include, in addition to those individuals referred to in subparagraph (B), the new spouse and any dependents of the new spouse if that spouse's income is included in determining effective family income.

(B) In determining family size in the case of an independent student with dependents—

(i) family members include the student, the student's spouse, and the student's dependents; and

(ii) if the student is divorced or separated, family members do not include the spouse (or ex-spouse), but do include the student and the student's dependents.

(11) The term "farm assets" means any property owned and used in the operation of a farm for profit, including real estate,

livestock, livestock products, crops, farm machinery, and other equipment inventories. A farm is not considered to be operated for profit if crops or livestock are raised mainly for the use of the family, even if some income is derived from incidental sales.

(12(A) The term "independent", when used with respect to a student, means any individual who—

(i) is 24 years of age or older by December 31 of the award year; or

(ii) meets the requirements of subparagraph (B).

(B) Except as provided in subparagraph (C), an individual meets the requirements of this subparagraph if such individual—

(i) is an orphan or ward of the court;

(ii) is a veteran of the Armed Forces of the United States;

(iii) is a graduate or professional student who declares that he or she will not be claimed as a dependent for income tax purposes by his or her parents (or guardian) for the first calendar year of the award year;

(iv) is a married individual who declares that he or she will not be claimed as a dependent for income tax purposes by his or her parents (or guardian) for the first calendar year of the award year;

(v) has legal dependents other than a spouse;

(vi) is a single undergraduate student with no dependents who was not claimed as a dependent by his or her parents (or guardian) for income tax purposes for the 2 calendar years preceding the award year and demonstrates to the student financial aid administrator total self-sufficiency during the 2 calendar years preceding the award year in which the initial award will be granted by demonstrating annual total resources (including all sources of resources other than parents) of $4,000; or

(vii) is a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances.

(C) An individual may not be treated as a independent student pursuant to clauses (iii), (iv), and (vi) of subparagraph (B) if the financial aid administrator determines that such individual was treated as an independent student during the preceding award year, but was claimed as a dependent by any other individual (other than a spouse) for income tax purposes for the first calendar year of such award year.

(D) The financial aid administrator may certify an individual described in clause (iii), (iv), or (vi) of subparagraph (B) on the basis of a demonstration made by the individual, but no disbursal of an award may be made without documentation.

(13) The term "net assets" means the current market value at the time of application of the assets included in the definition of "assets", minus the outstanding liabilities (indebtedness) against the assets.

(14) The term "unreimbursed elementary and secondary school tuition and fees" means the unreimbursed tuition and

fees paid by the student's parents for each dependent other than the student, or by an independent student (and spouse) for dependents enolled in elementary or secondary school, and may not exceed for each such dependent the national average per pupil instructional cost as published by the Center for Education Statistics using the most recent available data.

(15) The term "untaxed income and benefits" means—

(A) child support received;

(B) welfare benefits, including aid to families with dependent children under a State plan approved under part A of title IV of the Social Security Act and aid to dependent children;

(C) workman's compensation;

(D) veterans' benefits such as death pension, dependency and indemnity compensation, but excluding veterans' education benefits;

(E) interest on tax-free bonds;

(F) housing, food, and other allowances (excluding rent subsidies for low-income housing) for military, clergy, and others (including cash payments and cash value of benefits);

(G) cash support or any money paid on the student's behalf;

(H) the amount of earned income credit claimed for Federal income tax purposes;

(I) untaxed portion of pensions;

(J) credit for Federal tax on special fuels;

(K) the amount of foreign income excluded for purposes of Federal income taxes;

(L) untaxed social security benefits;

(M) payments to individual retirement accounts and Keogh accounts excluded from income for Federal income tax purposes; and

(N) any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, railroad retirement benefits, or Job Training Partnership Act noneducational benefits.

(16)A) The term "unusual medical and dental expenses" means an amount equal to the amount by which the sum of unreimbursed medical and dental expenses exceeds 20 percent of the effective family income of the parents. The expenses of both parents are included only if the income of both parents is included in determining effective family income. A stepparent's expenses are included only if the parent's income is included in determining effective family income.

(B) The term "unusual medical and dental expenses", in the case of an independent student with dependents, means an amount equal to the amount by which the sum of unreimbursed medical and dental expenses exceeds 20 percent of the effective family income of the independent student with dependents. The expenses of both the student and the student's spouse are included only if the incomes of both are included in determining effective family income.

(17)(A) The tax on income paid to the Governments of the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, or the Northern Mariana Islands, or the Trust Territory of the Pacific Islands under the laws applicable to those jurisdictions, or the comparable tax paid to the central government of a foreign country, shall be treated as United States income taxes.

(B) References in this subpart to the Internal Revenue Code of 1986, Federal income tax forms, and the Internal Revenue Service shall, for purposes of the tax described in subparagraph (A), be treated as references to the corresponding laws, tax forms, and tax collection agencies of those jurisdictions, respectively, subject to such adjustments as the Secretary may prescribe by regulation.

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TITLE IV—STUDENT ASSISTANCE

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PART B—ROBERT T. STAFFORD STUDENT LOAN PROGRAM

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STATEMENT OF PURPOSE; NONDISCRIMINATION; AND APPROPRIATIONS AUTHORIZED

SEC. 421. (a) PURPOSE; DISCRIMINATION PROHIBITED.—

(1) PURPOSE.—The purpose of this part is to enable the Secretary—

(A) to encourage States and nonprofit private institutions and organizations to establish adequate loan insurance programs for students in eligible institutions (as defined in section 435),

(B) to provide a Federal program of student loan insurance for students or lenders who do not have reasonable access to a State or private nonprofit program of student loan insurance covered by an agreement under section 428(b),

(C) to pay a portion of the interest on loans to qualified students which are insured under this part, and

(D) to guarantee a portion of each loan insured under a program of a State or of a nonprofit private institution or organization which meets the requirements of section 428(a)(1)(B).

(2) DISCRIMINATION BY CREDITORS PROHIBITED.—No agency, organization, institution, bank, credit union, corporation, or other lender who regularly extends, renews, or continues credit or provides insurance under this part shall exclude from receipt or deny the benefits of, or discriminate against any borrower or applicant in obtaining, such credit or insurance on the basis of race, national origin, religion, sex, marital status, age, or handicapped status.

(b) AUTHORIZATION OF APPROPRIATIONS.—For the purpose of carrying out this part—

(1) there are authorized to be appropriated to the student loan insurance fund (established by section 431) (A) the sum of $1,000,000, and (B) such further sums, if any, as may become necessary for the adequacy of the student loan insurance fund,

(2) there are authorized to be appropriated, for payments under section 428 with respect to interest on student loans and for payments under section 437, such sums for the fiscal year ending June 30, 1966, and succeeding fiscal years, as may be required therefor,

(3) there is authorized to be appropriated the sum of $17,500,000 for making advances pursuant to section 422 for the reserve funds of State and nonprofit private student loan insurance programs,

(4) there are authorized to be appropriated (A) the sum of $12,500,000 for making advances after June 30, 1968, pursuant to sections 422 (a) and (b), and (B) such sums as may be necessary for making advances pursuant to section 422(c), for the reserve funds of State and nonprofit private student loan insurance programs, and

(5) there are authorized to be appropriated such sums as may be necessary for the purpose of paying an administrative cost allowance in accordance with section 428(f) to guaranty agencies.

Sums appropriated under paragraphs (1), (2), (4), and (5) of this subsection shall remain available until expended. No additional sums are authorized to be appropriated under paragraph (3) or (4) of this subsection by reason of the reenactment of such paragraphs by the Higher Education Amendments of 1986.

(c) The program established under this part shall be referred to as the "Robert T. Stafford Student Loan Program". Loans made under this part shall be known as "Stafford Loans".

SEC. 422–426. * * *

ELIGIBILITY OF STUDENT BORROWERS AND TERMS OF FEDERALLY INSURED STUDENT LOANS

SEC. 427. (a) LIST OF REQUIREMENTS.—Except as provided in section 428C, a loan by an eligible lender shall be insurable by the Secretary under the provisions of this part only if—

(1) made to a student who (A) is an eligible student under section 484, (B) has agreed to notify promptly the holder of the loan concerning any change of address, and (C) is carrying at least one-half the normal full-time academic workload for the course of study the student is pursuing (as determined by the institution); and

(2) evidenced by a note or other written agreement which—

(A) is made without security and without endorsement, except that if the borrower is a minor and such note or other written agreement executed by the borrower would not, under the applicable law, create a binding obligation, endorsement may be required;

(B) provides for repayment (except as provided in subsection (c)) of the principal amount of the loan in installments over a period of not less than 5 years (unless sooner repaid

or unless the student, during the 6 months preceding the start of the repayment period, specifically requests that repayment be made over a shorter period) nor more than 10 years beginning 6 months after the month in which the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution, except—

(i) as provided in subparagraph (C);

(ii) that the note or other written instrument may contain such reasonable provisions relating to repayment in the event of default in the payment of interest or in the payment of the cost of insurance premiums, or other default by the borrower, as may be authorized by regulations of the Secretary in effect at the time the loan is made, *and the Secretary may require the lender (or the holder of the loan) to notify the borrower not later than 180 days after the lender is notified that the borrower has left the eligible institution of the month in which the repayment period begins*; and

(iii) that the lender and the student, after the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution, may agree to a repayment schedule which begins earlier, or is of shorter duration, than required by this subparagraph, but in the event a borrower has requested and obtained a repayment period of less than 5 years, the borrower may at any time prior to the total repayment of the loan, have the repayment period extended so that the total repayment period is not less than 5 years;

(C) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid, during any period—

(i) during which the borrower (I) is pursuing a full-time course of study at an eligible institution, (II) is pursuing at least a half-time course of study (as determined by such institution) during an enrollment period for which the student has obtained a loan under this part, or (III) is pursuing a course of study pursuant to a graduate fellowship program approved by the Secretary, or pursuant to a rehabilitation training program for disabled individuals approved by the Secretary;

(ii) not in excess of 3 years during which the borrower is a member of the Armed Forces of the United States, is an active duty member of the National Oceanic and Atmospheric Administration Corps, or is an officer in the Commissioned Corps of the Public Health Service;

(iii) not in excess of 3 years during which the borrower is in service as a volunteer under the Peace Corps Act;

(iv) not in excess of 3 years during which the borrower is in service as a full-time volunteer under this Domestic Volunteer Service Act of 1973;

(v) not in excess of 3 years during which the borrower is in service, comparable to the service referred to in clauses (iii) and (iv), as a full-time volunteer for an organization which is exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986;

(vi) not in excess of 3 years during which the borrower is engaged as a full-time teacher in a public or nonprofit private elementary or secondary school in a teacher shortage area established by the Secretary pursuant to section 428(b)(4);

(vii) not in excess of 2 years during which the borrower is serving an internship, the successful completion of which is required in order to receive professional recognition required to begin professional practice or service "after January 1, 1986" [or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training] *or serving in a medical internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or health care facility, except that no borrower shall be eligible for a deferment under clause (i)(I) or (i)(II) while serving in a health profession internship or residency program;*

(viii) not in excess of 3 years during which the borrower is temporarily totally disabled, as established by sworn affidavit of a qualified physician, or during which the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled;

(ix) not in excess of 24 months, at the request of the borrower, during which the borrower is seeking and unable to find full-time employment;

(x) not in excess of 6 months of parental leave; or

(xi) not in excess of 12 months for mothers with preschool age children who are just entering or reentering the work force and who are compensated at a rate not exceeding $1 in excess of the rate prescribed under section 6 of the Fair Labor Standards Act of 1938,

and that any such period shall not be included in determining the 10-year period provided in subparagraph (B);

(D) provides for interest on the unpaid principal balance of the loan at a yearly rate, not exceeding the applicable maximum rate prescribed in section 427A, which interest shall be payable in installments over the period of the loan except that, if provided in the note or other written agreement, any interest payable by the student may be deferred until not later than the date upon which repayment of the first installment of principal falls due, in which case inter-

est accrued during that period may be added on that date to the principal;

(E) provides that the lender will not collect or attempt to collect from the borrower any portion of the interest on the note which is payable by the Secretary under this part, and that the lender will enter into such agreements with the Secretary as may be necessary for the purpose of section 437;

(F) entitles the student borrower to accelerate without penalty repayment of the whole or any part of the loan;

(G)(i) contains a notice of the system, of disclosure of information concerning such loan to credit bureau organizations under section 430A, and (ii) provides that the lender on request of the borrower will provide information on the repayment status of the note to such organizations; and

(H) contains such other terms and conditions, consistent with the provisions of this part and with the regulations issued by the Secretary pursuant to this part, as may be agreed upon by the parties to such loan, including, if agreed upon, a provision requiring the borrower to pay the lender, in addition to principal and interest, amounts equal to the insurance premiums payable by the lender to the Secretary with respect to such loan;

(3) the funds borrowed by a student are disbursed to the institution by check or other means that is payable to and requires the endorsement or other certification by such student, except nothing in this title shall be interpreted to allow the Secretary to require checks to be made co-payable to the institution and the borrower or to prohibit the disbursement of loan proceeds by means other than check; and

[(4) in the case of any loan made for any period of enrollment that ends more than 180 days (or 6 months) after the date disbursement is scheduled to occur, and for an amount of $1,000 or more, the proceeds of the loan will, subject to subsection (b), be disbursed directly by the lender in two or more installments, none of which exceeds one-half of the loan, with the second installment being disbursed after not less than one-third of such period (except as necessary to permit the second installment to be disbursed at the beginning of the second semester, quarter, or similar division of such period of enrollment).]

(4) the funds borrowed by a student are disbursed in accordance with section 428G.

(b) SPECIAL RULES FOR MULTIPLE DISBURSEMENT.—For the purpose of subsection (a)(4)—

(1) all loans issued for the same period of enrollment shall be considered as a single loan; and

(2) the requirements of such subsection shall not apply in the case of a loan made under section 428B or 428C, or made to a student to cover the cost of attendance at an eligible institution outside the United States.

(c) MINIMUM REPAYMENT RATE.—The total of the payments by a borrower during any year of any repayment period with respect to the aggregate amount of all loans to that borrower which are in-

sured under this part shall not, unless the borrower and the lender otherwise agree, be less than $600 or the balance of all such loans (together with interest thereon), whichever amount is less, except that in the case of a husband and wife, both of whom have such loans outstanding, the total of the combined payments for such a couple during any year shall not be less than $600 or the balance of all such loans, whichever is less.

FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS

SEC. 428. (a) FEDERAL INTEREST SUBSIDIES.—

(1) TYPES OF LOANS THAT QUALIFY.—Each student who has received a loan for study at an eligible institution—

(A) which is insured by the Secretary under this part; or

(B) which is insured under a program of a State or of a nonprofit private institution or organization which was contracted for, and paid to the student, within the period specified in paragraph (5), and which—

(i) in the case of a loan insured prior to July 1, 1967, was made by an eligible lender and is insured under a program which meets the requirements of subparagraph (E) of subsection (b)(1) and provides that repayment of such loan shall be in installments beginning not earlier than 60 days after the student ceases to pursue a course of study (as described in subparagraph (D) of subsection (b)(1)) at an eligible institution, or

(ii) in the case of a loan insured after June 30, 1967, was made by an eligible lender and is insured under a program covered by an agreement made pursuant to subsection (b),

shall be entitled to have paid on his or her behalf and for his or her account to the holder of the loan a portion of the interest on such loan under circumstances described in paragraph (2).

(2) ADDITIONAL REQUIREMENTS TO RECEIVE SUBSIDY.—(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall—

(i) have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which the student is in attendance, which—

(I) sets forth such student's estimated cost of attendance (as determined under section 472; [and]

(II) sets forth such student's estimated financial assistance; and

(III) sets forth a schedule for disbursement of the proceeds of the loan in installments, consistent with the requirements of section 428G; and

(ii) meet the requirements of subpargraph (B).

(B) For purpose of clause (ii) of subparagraph (A), a student shall qualify for a portion of an interest payment under paragraph (1) if the eligible institution has provided the lender with a statement evidencing a determination of need for a loan

(as determined under part F of this title) and the amount of such need, subject to the provisions of subpargraph (D).

(C) For the purpose of paragraph (1) and this paragraph—

(i) a student's estimated financial assistance means, for the period for which the loan is sought, the amount of assistance such student will receive under subpart 1 of part A (as determined in accordance with section 484(b)), subpart 2 of part A, and parts C and E of this title, [and any amount paid the student under chapters 32, 34, and 35 of title 38, United States Code] *any veterans educational benefits paid because of enrollment in a postsecondary institution, including (but not limited to) benefits received under chapters 106 and 107 of title 10, and chapters 30, 31, 32, 34, and 35 of title 38, United States Code,* plus other scholarship, grant, or loan assistance; and

(ii) the determination of need and of the amount of a loan by an eligible institution under subparagraph (B) with respect to a student shall be calculated by subtracting from the estimated cost of attendance at the eligible institution the total of the expected family contribution with respect to such student plus any estimated financial assistance reasonably available to such student.

(D) An eligible institution may not, in carrying out the provisions of subparagraphs (A) and (B) of this paragraph, provide a statement which certifies the eligibility of any student to receive any loan under this part in excess of the maximum amount applicable to such loan.

(E) For the purpose of subparagraphs (B) and (C) of this paragraph, any loan obtained by a student under section 428A or a parent under section 428B of this Act or under any State-sponsored or private loan program for an academic year for which the determination is made may be used to offset the expected family contribution of the student for that year.

(F) Except as provided in subparagraph (D), an eligible institution may not, in carrying out the provisions of subparagraphs (A) and (B) of this paragraph, refuse to provide to any eligible lender which has an agreement under subsection (b) of this section with any guaranty agency, a statement which permits a student to receive any loan under this part.

(G) In order to facilitate the efficient carrying out of subparagraphs (A) and (B) of this section, each eligible institution shall transmit, upon request of another eligible institution, the financial aid transcripts necessary for making the statement evidencing a determination of need for a loan under such subparagraphs, within 30 days of receiving such request.

(3) AMOUNT OF INTEREST SUBSIDY.—(A)(i) Subject to section 438(c), the portion of the interest on a loan which a student is entitled to have paid, on behalf of and for the account of the student, to the holder of the loan pursuant to paragraph (1) of this subsection shall be equal to the total amount of the interest on the unpaid principal amount of the loan—

(I) which accrues prior to the beginning of the repayment period of the loan, or

(II) which accrues during a period in which principal need not be paid (whether or not such principal is in fact paid) by reason of a provision described in subsection (b)(1)(M) of this section or in section 427(a)(2)(C).

(ii) Such portion of the interest on a loan shall not exceed, for any period, the amount of the interest on that loan which is payable by the student after taking into consideration the amount of any interest on that loan which the student is entitled to have paid on his or her behalf for that period under any State or private loan insurance program.

(iii) The holder of a loan with respect to which payments are required to be made under this section shall be deemed to have a contractual right, as against the United States, to receive from the Secretary the portion of interest which has been so determined without administrative delay after the receipt by the Secretary of an accurate and complete request for payment pursuant to paragraph (4).

(iv) The Secretary shall pay this portion of the interest to the holder of the loan on behalf of and for the account of the borrower at such times as may be specified in regulations in force when the applicable agreement entered into pursuant to subsection (b) was made, or, if the loan was made by a State or is insured under a program which is not covered by such an agreement, at such times as may be specified in regulations in force at the time the loan was paid to the student.

(B) If—

(i) a State student loan insurance program is covered by an agreement under subsection (b),

(ii) a statute of such State limits the interest rate on loans insured by such program to a rate which is less than the applicable interest rate under this part, and

(iii) the Secretary determines that subsection (d) does not make such statutory limitation inapplicable and that such statutory limitation threatens to impede the carrying out of the purpose of this part,

then the Secretary may pay an administrative cost allowance to the holder of each loan which is insured under such program and which is made during the period beginning on the 60th day after the date of enactment of the Higher Education Amendments of 1968 and ending 120 days after the adjournment of such State's first regular legislative session which adjourns after January 1, 1969. Such administrative cost allowance shall be paid over the term of the loan in an amount per year (determined by the Secretary) which shall not exceed 1 percent of the unpaid principal balance of the loan.

(4) SUBMISSION OF STATEMENTS BY HOLDERS ON AMOUNT OF PAYMENT.—Each holder of a loan with respect to which payments of interest are required to be made by the Secretary shall submit to the Secretary, at such time or times and in such manner as the Secretary may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Secretary to determine the amount of the payment which he must make with respect to that loan.

(5) DURATION OF AUTHORITY TO MAKE INTEREST SUBSIDIZED LOANS.—The period referred to in subparagraph (B) of paragraph (1) of this subsection shall begin on the date of enactment of this Act and end at the close of September 30, 1992, except that, in the case of a loan made or insured under a student loan or loan insurance program to enable a student who has obtained a prior loan made or insured under such program to continue his or her education program, such period shall end at the close of September 30, 1997.

(6) ASSESSMENT OF BORROWER'S FINANCIAL CONDITION NOT PROHIBITED OR REQUIRED.—Nothing in this or any other Act shall be construed to prohibit or require, unless otherwise specifically provided by law, a lender to evaluate the total financial situation of a student making application for a loan under this part, or to counsel a student with respect to any such loan, or to make a decision based on such evaluation and counseling with respect to the dollar amount of any such loan.

(b) INSURANCE PROGRAM AGREEMENTS TO QUALIFY LOANS FOR INTEREST SUBSIDIES.—

(1) REQUIREMENTS OF INSURANCE PROGRAM.—Any State or any nonprofit private institution or organization may enter into an agreement with the Secretary for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf the payments provided for in subsection (a) if the Secretary determines that the student loan insurance program—

(A) authorizes the insurance in any academic year or its equivalent (as determined under regulations of the Secretary) for any student who is carrying at an eligible institution at least one-half the normal full-time academic workload (as determined by the institution) in any amount up to a maximum of—

(i) $2,625, in the case of a student who has not successfully completed the first and second year of a program of undergraduate education;

(ii) $4,000, in the case of a student who has successfully completed such first and second year but who has not successfully completed the remainder of a program of undergraduate education; and

(iii) $7,500, in the case of a graduate or professional student (as defined in regulations of the Secretary); except in cases where the Secretary determines, pursuant to regulations, that a higher amount is warranted in order to carry out the purpose of this part with respect to students engaged in specialized training requiring exceptionally high costs of education, but the annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit;

(B) provides that the aggregate insured unpaid principal amount for all such insured loans made to any student shall be any amount up to a maximum of—

(i) $17,250, in the case of any student who has not successfully completed a program of undergraduate education, excluding loans made under section 428A or 428B; and

(ii) $54,750, in the case of any graduate or professional student (as defined by regulations of the Secretary and including any loans which are insured by the Secretary under this part, or by a guaranty agency, made to such student before the student became a graduate or professional student), excluding loans made under section 428A or 428B;

except that the Secretary may increase the limit applicable to students who are pursuing programs which the Secretary determines are exceptionally expensive;

(C) authorizes the insurance of loans to any individual student for at least 6 academic years of study or their equivalent (as determined under regulations of the Secretary);

(D) provides that (i) the student borrower shall be entitled to accelerate without penalty the whole or any part of an insured loan, (ii) except as provided in subparagraph (M) of this paragraph, the repayment period of any insured loan may not exceed 10 years, and (iii) the note or other written evidence of any loan, may contain such reasonable provisions relating to repayment in the event of default by the borrower as may be authorized by regulations of the Secretary in effect at the time such note or written evidence was executed;

(E) subject to subparagraphs (D) and (L) of this paragraph and except as provided by subparagraph (M) of this paragraph, provides that repayment of loans shall be in installments over a period of not less than 5 years (unless the student, during the 6 months preceding the start of the repayment period, specifically requests that repayment be made over a shorter period) nor more than 10 years beginning 6 months preceding the start of the repayment period, specifically requests that the repayment be made over a shorter period) nor more than 10 years beginning 6 months after the month in which the student ceases to carry at least one-half the normal full-time academic workload as determined by the institution;

(F) authorizes interest on the unpaid balance of the loan at a yearly rate not in excess (exclusive of any premium for insurance which may be passed on to the borrower) of the rate required by section 427A;

(G) insures not less than 100 percent of the unpaid principal of loans insured under the program;

(H) provides for collection of a single insurance premium equal to not more than 3 percent of the principal amount of the loan, by deduction proportionately from each installment payment of the proceeds of the loan to the borrower,

and insures that the proceeds of the premium will not be used for incentive payments to lenders;

(I) provides that the benefits of the loan insurance program will not be denied any student who is eligible for interest benefits under subsection (a) (1) and (2);

(J) provides that a student may obtain insurance under the program for a loan for any year of study at an eligible institution;

(K) in the case of a State program, provides that such State program is administered by a single State agency, or by one or more nonprofit private institutions or organizations under supervision of a single State agency;

(L) provides that the total of the payments by a borrower—

(i) during any year of any repayment period with respect to the aggregate amount of all loans to that borrower which are insured under this part shall not, unless the borrower and the lender otherwise agree, be less than $600 or the balance of all such loans (together with interest thereon), whichever amount is less, except that, in the case of a husband and wife, both of whom have such loans outstanding, the total of the combined payments for such a couple during any year shall not be less than $600 or the balance of all such loans, whichever is less; and

(ii) for a monthly or other similar payment period with respect to the aggregate of all loans held by the lender may, when the amount of a monthly or other similar payment is not a multiple of $5, be rounded to the next highest whole dollar amount that is a multiple of $5;

(M) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid, during any period—

(i) during which the borrower (I) is pursuing a full-time course of study as determined by an eligible institution, (II) is pursuing at least a half-time course of study (as determined by such institution) for which the student has obtained a loan under this part, or (III) is pursuing a course of study pursuant to a graduate fellowship program approved by the Secretary, or pursuant to a rehabilitation training program for disabled individuals approved by the Secretary;

(ii) not in excess of 3 years during which the borrower is a member of the Armed Forces of the United States, is an active duty member of the National Oceanic and Atmospheric Administration Corps, or is an officer in the Commissioned Corps of the Public Health Service;

(iii) not in excess of 3 years during which the borrower is in service as a volunteer under the Peace Corps Act;

(iv) not in excess of 3 years during which the borrower is in service as a full-time volunteer under the Domestic Volunteer Service Act of 1973;

(v) not in excess of 3 years during which the borrower is in service, comparable to the service referred to in clauses (iii) and (iv), as a full-time volunteer for an organization which is exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986;

(vi) not in excess of 3 years during which the borrower is engaged as a full-time teacher in a public or nonprofit private elementary or secondary school in a teacher shortage area established by the Secretary pursuant to paragraph (4) of this subsection;

(vii) not in excess of 2 years during which the borrower is serving an internship, the successful completion of which is required in order to receive professional recognition required to begin professional practice or service after January 1, 1986 [or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training;] *or serving in a medical internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or health care facility, provided that no borrower shall be eligible for a deferment under clause (i)(I) or (i)(II) while serving in a health profession internship or residency program;*

(viii) not in excess of 3 years during which the borrower is temporarily totally disabled, as established by sworn affidavit of a qualified physician, or during which the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled;

(ix) not in excess of 24 months, at the request of the borrower, during which the borrower is seeking and unable to find full-time employment;

(x) not in excess of 6 months of parental leave; and

(xi) not in excess of 12 months for mothers with preschool age children who are just entering or reentering the work force and who are compensated at a rate not exceeding $1 in excess of the rate prescribed under section 6 of the Fair Labor Standards Act of 1938;

(N) provides that funds borrowed by a student are disbursed to the institution by check or other means that is payable to and requires the endorsement or other certification by such student, except nothing in this title shall be interpreted to allow the Secretary to require checks to be made co-payable to the institution and the borrower or to prohibit the disbursement of loan proceeds by means other than by check and except in the case of attendance at an institution outside the United States, the funds shall be delivered directly to the student;

[(O) provides that the proceeds of any loan made for any period of enrollment that ends more than 180 days (or 6 months) after the date disbursement is scheduled to occur, and for an amount of $1,000 or more—

[(i) will be disbursed directly by the lender in two or more installments, none of which exceeds one-half of the loan, with the second installment being disbursed after not less than one-third of such period (except as necessary to permit the second installment to be disbursed at the beginning of the second semester, quarter, or similar division of such period of enrollment), or

[(ii) will be disbursed in such installments pursuant to the escrow provisions of subsection (i) of this section,

but all loans issued for the same period of enrollment shall be considered as a single loan for the purpose of this subparagraph and the requirements of this subparagraph shall not apply in the case of a loan made under section 428B or 428C, or made to a student to cover the cost of attendance at an eligible institution outside the United States;]

(O) provide that the proceeds of the loans will be disbursed in accordance with the requirements of section 428G;

(P) requires the borrower to notify the institution concerning any change in local address during enrollment and requires the borrower and the institution at which the borrower is in attendance promptly to notify the holder of the loan, directly or through the guaranty agency, concerning (i) any change of permanent address, (ii) when the student ceases to be enrolled on at least a half-time basis, and (iii) any other change in status, when such change in status affects the student's eligibility for the loan;

(Q) provides for the guarantee of loans made to students and parents under sections 428A and 428B;

(R) with respect to lenders which are eligible institutions, provides for the insurance of loans by only such institutions as are located within the geographic area served by such guaranty agency;

(S) provides no restrictions with respect to the insurance of loans for students who are otherwise eligible for loans under such program if such a student is accepted for enrollment in or is attending an eligible institution within the State; or if such a student is a legal resident of the State and is accepted for enrollment in or is attending an eligible institution outside that State;

(T) provides no restrictions with respect to eligible institutions (other than nonresidential correspondence schools) which are more onerous than eligibility requirements for institutions under the Federal student loan insurance program as in effect on January 1, 1985, unless—

(i) that institution is ineligible under regulations for the limitation, suspension, or termination of eligible

institutions under the Federal student loan insurance program or is ineligible pursuant to criteria issued under the student loan insurance program; which are substantially the same as regulations with respect to such eligibility issued under the Federal student loan insurance program; or

(ii) there is a State constitutional prohibition affecting the eligibility of such an institution; and

(U) provides (i) for the eligibility of all lenders described in section 435(d)(1) under reasonable criteria, unless (I) that lender is eliminated as a lender under regulations for the limitation, suspension, or termination of a lender under the Federal student loan insurance program or is eliminated as a lender pursuant to criteria issued under the student loan insurance program which are substantially the same as regulations with respect to such eligibility as a lender issued under the Federal student loan insurance program, or (II) there is a State constitutional prohibition affecting the eligibility of a lender, and (ii) assurances that the guaranty agency will report to the Secretary concerning changes in such criteria, including any procedures in effect under such program to limit, suspend, or terminate lenders.

(2) CONTENTS OF INSURANCE PROGRAM AGREEMENT.—Such an agreement shall—

(A) provide that the holder of any such loan will be required to submit to the Secretary, at such time or times and in such manner as the Secretary may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Secretary to determine the amount of the payment which must be made with respect to that loan;

(B) include such other provisions as may be necessary to protect the United States from the risk of unreasonable loss and promote the purpose of this part, including such provisions as may be necessary for the purpose of section 437, and as are agreed to by the Secretary and the guaranty agency, as the case may be;

(C) provide for making such report[illegible]n such form and containing such information, as the Secretary's functions under this part, and for keeping such records and for affording such access thereto as the Secretary may find necessary to assure the correctness and verification of such reports;

(D) provide for—

(i) conducting, except as provided in clause (ii), financial and compliance audits of the guaranty agency at least once every 2 years and covering the period since the most recent audit, conducted by a qualified, independent organization or person in accordance with standards established by the Comptroller General for the audit of governmental organizations, programs, and functions, and as prescribed in regulations of the

Secretary, the results of which shall be submitted to the Secretary; or

(ii) with regard to a guaranty program of a State which is audited under chapter 75 of title 31, United States Code, deeming such audit to satisfy the requirements of clause (i) for the period of time covered by such audit; and

(E)(*i*) provide that any guaranty agency may transfer loans which are insured under this part to any other guaranty agency with the approval of the holder of the loan and such other guaranty agency; *and*

(ii) provides that the lender (or the holder of the loan) shall notify the borrower not later than 180 days after the lender is notified that the borrower has left the eligible institution of the month in which the repayment period begins;

(F) provide that the lender will be required to notify the guaranty agency of any sale or other transfer of the loan to another holder and the address and phone number through which to contact such other holder concerning repayment of the loan not later than 60 days after such sale or other transfer, and to notify the borrower, or upon request, any eligible institution, of any such sale or transfer, together with such address and phone number, if the sale or transfer requires the borrower to pay the loan at a new address not later than 60 days after such sale or transfer.

(3) RESTRICTIONS ON INDUCEMENTS, MAILINGS, AND ADVERTISING.—A guaranty agency shall not—

(A) offer, directly or indirectly, premiums, payments, or other inducements to any educational institution or its employees in order to secure applicants for loans under this part;

(B) conduct unsolicited mailings to students enrolled in secondary school of student loan application forms;

(C) conduct fraudulent or misleading advertising concerning loan availability[.]*; or*

(D) sell lists of student borrowers who have loans made, insured, or guaranteed under this part.

(4) TARGETED TEACHER DEFERMENT RULE.—(A) The deferment for service as a teacher in a public or nonprofit private elementary or secondary school shall be for service as such a teacher in shortage areas prescribed by the Secretary, in consultation with the chief State school officer or, in the case of nonprofit private elementary or secondary schools, with appropriate officials of the nonprofit private schools in each State in accordance with this subparagraph.

(B) For the purpose of this paragraph, the term "shortage areas" means (i) geographic areas of the State in which there is a shortage of elementary and secondary school teachers, and (ii) an area of shortage of elementary and secondary school teachers in specific grade levels and in specific academic, instructional, subject matter, and discipline classifications. In carrying out the provisions of this subparagraph, the Secretary shall give special consideration to areas in which emergency

certification of individuals in a State is being used to correct teacher shortages; and to States which have retirement laws permitting early retirement.

(5) SPECIAL RULE.—For the purpose of paragraph (1)(M)(i)(III) of this subsection, the Secretary shall approve any course of study at a foreign university that is accepted for the completion of a recognized international fellowship program by the administrator of such a program.

(6) GUARANTY AGENCY INFORMATION TRANSFERS.—(A) Until such time as the Secretary has implemented section 485B and is able to provide to guaranty agencies the information required by such section, any guaranty agency may request information regarding loans made after January 1, 1987, to students who are residents of the State for which the agency is the designated guarantor, from any other guaranty agency insuring loans to such students.

(B) Upon a request pursuant to subparagraph (A), a guaranty agency shall provide—

(i) the name and the social security number of the borrower; and

(ii) the amount borrowed and the cumulative amount borrowed.

(C) Any costs associated with fulfilling the request of a guaranty agency for information on students shall be paid by the guaranty agency requesting the information.

(7) STATE GUARANTY AGENCY INFORMATION REQUEST OF STATE LICENSING BOARDS.—Each guaranty agency is authorized to enter into agreements with each appropriate State licensing board under which the State licensing board, upon request, will furnish the guaranty agency with the address of a student borrower in any case in which the location of the student borrower is unknown or unavailable to the guaranty agency.

SUPPLEMENTAL LOANS FOR STUDENTS

SEC. 428A. (a) AUTHORITY TO BORROW.—Graduate and professional students (as defined by regulations of the Secretary) and undergraduate independent students shall be eligible to borrow funds under this section in amounts specified in subsection (b), and unless otherwise specified in subsections (c) and (d), loans under this section shall have the same terms, conditions, and benefits as all other loans made under this part. In addition, undergraduate dependent students shall be eligible to borrow funds under this section if the financial aid administrator determines, after review of the financial information submitted by the student and considering the debt burden of the student, that exceptional circumstances will likely preclude the student's parents from borrowing under section 428B for purposes of the expected family contribution and that the student's family is otherwise unable to provide such expected family contribution. If the financial aid administrator makes such a determination, appropriate documentation of such determination shall be maintained in the institution's records to support such determination.

(b) LIMITATIONS ON AMOUNTS OF LOANS.—

(1) ANNUAL LIMIT.—Subject to paragraphs (2) and (3), the maximum amount a student may borrow in any academic year or its equivalent (as defined by regulation by the Secretary) is $4,000.

(2) AGGREGATE LIMIT.—The aggregate insured principal amount for insured loans made to any student under this section, exclusive of interest capitalized under subsection (c), shall not exceed $20,000.

(3) LIMITATION BASED ON NEED.—Any loan under this section may be counted as part of the expected family contribution in the determination of need under this title, but no loan may be made to any student under this section for any academic year in excess of (A) the student's estimated cost of attendance, minus (B) the total of (i) any loan for which the student is eligible under section 428 and (ii) other financial aid as certified by the eligible institution under section 428(a)(2)(A). The annual insurable limit on account of the student shall not be deemed to be exceeded by a line of credit under which actual payments to the borrower will not be made in any year in excess of the annual limit.

(4) DISBURSEMENT.—Any loan under this section shall be disbursed in the manner required by subparagraphs (N) and (O) of section 428(b)(1).

(c) PAYMENT OF PRINCIPAL AND INTEREST.—

(1) COMMENCEMENT OF REPAYMENT.—Repayment of principal on loans made under this section shall commence not later than 60 days after the date such loan is disbursed by the lender, or, if the loan is disbursed in multiple installments, not later than 60 days after the disbursement of the last such installment, subject to deferral pursuant to sections 427(a)(2)(C) and 428(b)(1)(M).

(2) CAPITALIZATION OF INTEREST.—Interest on loans made under this section which are disbursed in installments or, for which payments of principal are deferred under sections 427(A)(2)(C)(i) and 428(b)(1)(M)(i), shall, if agreed upon by the borrower and the lender (A) be paid monthly or quarterly or (B) be added to the principal amount of the loan on a quarterly basis by the lender. Such capitalization of interest shall not be deemed to exceed the annual insurable limit on account of the student.

(3) SUBSIDIES PROHIBITED.—No payments to reduce interest costs shall be paid pursuant to section 428(a) of this part on loans made pursuant to this section.

(4) APPLICABLE RATES OF INTEREST.—Interest on loans made pursuant to this section shall be at the applicable rate of interest provided in section 427A(c).

(5) AMORTIZATION.—The amount of the periodic payment and the repayment schedule for any loan made pursuant to this section shall be established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the principal amount of the loan commences. At the option of the lender, the note or other written evidence of the loan may require that—

(A) the amount of the periodic payment will be adjusted annually, or

(B) the period of repayment of principal will be lengthened or shortened.

in order to reflect adjustments in interest rates occurring as a consequence of section 427A(c)(4).

(d) REFINANCING.—

(1) REFINANCING TO SECURE COMBINED PAYMENT.—An eligible lender may at any time consolidate loans held by it which are made under this section to a borrower, including loans which were made under section 428B as in effect prior to the enactment of the Higher Education Amendments of 1986, under a single repayment schedule which provides for a single principal payment and a single payment of interest, and shall calculate the repayment period for each included loan from the date of the commencement of repayment of the most recent included loan. Unless the consolidated loan is obtained by a borrower who is electing to obtain variable interest under paragraph (2) or (3), such consolidated loan shall bear interest at the weighted average of the rates of all included loans. The extension of any repayment period of an included loan pursuant to this paragraph shall be reported (if required by them) to the Secretary or guaranty agency insuring the loan, as the case may be, but no additional insurance premiums shall be payable with respect to any such extension. The extension of the repayment period of any included loan shall not require the formal extension of the promissory note evidencing the included loan or the execution of a new promissory note, but shall be treated as an administrative forbearance of the repayment terms of the included loan.

(2) REFINANCING TO SECURE VARIABLE INTEREST RATE.—An eligible lender may reissue a loan which was made under this section before July 1, 1987, or under section 428B as in effect prior to the enactment of the Higher Education Amendments of 1986 in order to permit the borrower to obtain the interest rate provided under section 427A(c)(4). A lender offering to reissue a loan or loans for such purpose may charge a borrower an amount not to exceed $100 to cover the administrative costs of reissuing such loan or loans, not more than one-half of which shall be paid to the guarantor of the loan being reissued to recover costs of reissuance. Reissuance of a loan under this paragraph shall not affect any insurance applicable with respect to the loan, and no additional insurance fee may be charged to the borrower with respect to the loan.

(3) REFINANCING BY DISCHARGE OF PREVIOUS LOAN.—A borrower who has applied to an original lender for reissuance of a loan under paragraph (2) and who is denied such reissuance may obtain a loan from another lender for the purpose of discharging the loan from such original lender. A loan made for such purpose—

(A) shall bear interest at the applicable rate of interest provided under section 427A(c)(4);

(B) shall not result in the extension of the duration of the note (other than as permitted under subsection (c)(5)(B));

(C) may be subject to an additional insurance fee but shall not be subject to the administrative cost charge permitted by paragraph (2) of this subsection; and

(D) shall be applied to discharge the borrower from any remaining obligation to the original lender with respect to the original loan.

(4) CERTIFICATION IN LIEU OF PROMISSORY NOTE PRESENTATION.—Each new lender may accept certification from the original lender of the borrower's original loan in lieu of presentation of the original promissory note.

(5) NOTIFICATION TO BORROWERS OF AVAILABILITY OF REFINANCING OPTIONS.—Each holder of a loan made under this section or under section 428B as in effect prior to the date of enactment of this Act shall, not later than October 1, 1987, in the case of loans made before the date of enactment of this Act, notify the borrower of such loan—

(A) of the refinancing options for which the borrower is eligible under this subsection;

(B) of those options which will be made available by the holder and of the practical consequences of such options in terms of interest rates and monthly and total payments for a set of loan examples; and

(C) that, with respect to any option that the holder will not make available, the holder will, to the extent practicable, refer the borrower to an eligible lender offering such option.

(e) ADMINISTRATIVE FEE REQUIRED.—(1) An eligible lender is authorized to charge the borrower an administrative fee in an amount not to exceed 5 percent of the principal amount of the loan to be paid by the eligible lender to the Secretary in accordance with the provisions of this subsection.

(2) The Secretary shall enter into agreements with eligible lenders under which the administrative fee which the eligible lender is authorized to charge pursuant to paragraph (1) of this subsection is paid to the Secretary.

(3) No loan made under this section may be guaranteed under this part unless the eligible lender enters into an agreement with the Secretary under paragraph (2).

SEC. 428B. (a) AUTHORITY TO BORROW.—Parents of a dependent student shall be eligible to borrow funds under this section in amounts specified in subsection (b), and unless otherwise specified in [subsections (c) and (d)] *subsections (c), (d), and (e)*, such loans shall have the same terms, conditions, and benefits as all other loans made under this part. Whenever necessary to carry out the provisions of this section, the terms "student" and "borrower" as used in this part shall include a parent borrower under this section.

(b) LIMITATIONS ON AMOUNTS OF LOANS.—

(1) ANNUAL LIMIT.—Subject to paragraphs (2) and (3), the maximum amount parents may borrow for one student in any

academic year or its equivalent (as defined by regulation of the Secretary) is $4,000.

(2) AGGREGATE LIMIT.—The aggregate insured principal amount for insured loans made to parents on account of a student shall not exceed $20,000.

(3) LIMITATION BASED ON NEED.—Any loan under this section may be counted as part of the expected family contribution in the determination of need under this title, but no loan may be made to any parent under this section for any academic year in excess of (A) the student's estimated cost of attendance, minus (B) other financial aid as certified by the eligible institution under section 428(a)(2)(A). The annual insurable limit on account of any student shall not be deemed to be exceeded by a line of credit under which actual payments to the borrower will not be made in any year in excess of the annual limit.

(c) PAYMENT OF PRINCIPAL AND INTEREST.—

(1) COMMENCEMENT OF REPAYMENT.—Repayment of principal on loans made under this section shall commence not later than 60 days after the date such loan is disbursed by the lender, subject to deferral during any period during which the parent meets the conditions required for a deferral under clause (i), (viii), or (ix) of section 427(a)(2)(C) or 428(b)(1)(M)[; and (B) during any period during which the borrower has a dependent student for whom a loan obligation was incurred under this section and who meets the conditions required for a deferral under clause (i) of either such section].

(2) CAPITALIZATION OF INTEREST.—Interest on loans made under this section for which payments of principal are deferred pursuant to paragraph (1) of this subsection shall, if agreed upon by the borrower and the lender (A) be paid monthly or quarterly or (B) be added to the principal amount of the loan on a quarterly basis by the lender. Such capitalization of interest shall not be deemed to exceed the annual insurable limit on account of the student.

(3) SUBSIDIES PROHIBITED.—No payments to reduce interest costs shall be paid pursuant to section 428(a) of this part on loans made pursuant to this section.

(4) APPLICABLE RATES OF INTEREST.—Interest on loans made pursuant to this section shall be at the applicable rate of interest provided in section 427A(c).

(5) AMORTIZATION.—The amount of the periodic payment and the repayment schedule for any loan made pursuant to this section shall be established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the principal amount of the loan commences. At the option of the lender, the note or other written evidence of the loan may require that—

(A) the amount of the periodic payment will be adjusted annually, or

(B) the period of repayment of principal will be lengthened or shortened,

in order to reflect adjustments in interest rates occurring as a consequence of section 427(c)(4).

(d) REFINANCING.—

(1) REFINANCING TO SECURE COMBINED PAYMENT.—An eligible lender may at any time consolidate loans held by it which are made under this section to a borrower, including loans which were made under section 428B as in effect prior to the enactment of the Higher Education Amendments of 1986, under a single repayment schedule which provides for a single principal payment and a single payment of interest, and shall calculate the repayment period for each included loan from the date of the commencement of repayment of the most recent included loan. Unless the consolidated loan is obtained by a borrower who is electing to obtain variable interest under paragraph (2) or (3), such consolidated loan shall bear interest at the weighted average of the rates of all included loans. The extension of any repayment period of an included loan pursuant to this paragraph shall be reported (if required by them) to the Secretary or guaranty agency insuring the loan, as the case may be, but no additional insurance premiums shall be payable with respect to any such extension. The extension of the repayment period of any included loan shall not require the formal extension of the promissory note evidencing the included loan or the execution of a new promissory note, but shall be treated as an administrative forbearance of the repayment terms of the included loan.

(2) REFINANCING TO SECURE VARIABLE INTEREST RATE.—An eligible lender may reissue a loan which was made under this section before July 1, 1987, or under section 428B as in effect prior to the enactment of the Higher Education Amendments of 1986 in order to permit the borrower to obtain the interest rate provided under section 427A(c)(4). A lender offering to reissue a loan or loans for such purpose may charge a borrower an amount not to exceed $100 to cover the administrative costs of reissuing such loan or loans, not more than one-half of which shall be paid to guarantor of the loan being reissued to cover costs of reissuance. Reissuance of a loan under this paragraph shall not affect any insurance applicable with respect to the loan, and no additional insurance fee may be charged to the borrower with respect to the loan.

(3) REFINANCING BY DISCHARGE OF PREVIOUS LOAN.—A borrower who has applied to an original lender for reissuance of a loan under paragraph (2) and who is denied such reissuance may obtain a loan from another lender for the purpose of discharging the loan from such original lender. A loan made for such purpose—

(A) shall bear interest at the applicable rate of interest provided under section 427A(c)(4);

(B) shall not result in the extension of the duration of the note (other than as permitted under subsection (c)(5)(B));

(C) may be subject to an additional insurance fee but shall not be subject to the administrative cost charge permitted by paragraph (2) of this subsection; and

(D) shall be applied to discharge the borrower from any remaining obligation to the original lender with respect to the original loan.

(4) CERTIFICATION IN LIEU OF PROMISSORY NOTE PRESENTATION.—Each new lender may accept certification from the original lender of the borrower's original loan in lieu of presentation of the original promissory note.

(5) NOTIFICATION TO BORROWERS OF AVAILABILITY OF REFINANCING OPTIONS.—Each holder of a loan made under this section or under section 428B as in effect prior to the date of enactment of this Act, shall, not later than October 1, 1987, in the case of loans made before the date of enactment of this Act, notify the borrower of such loan—

(A) of the refinancing options for which the borrower is eligible under this subsection;

(B) of those options which will be made available by the holder and of the practical consequences of such options in terms of interest rates and monthly and total payments for a set of loan examples; and

(C) that, with respect to any option that the holder will not make available, the holder will, to the extent practicable, refer the borrower to an eligible lender offering such option.

(e) CREDITWORTHINESS REQUIRED.—An eligible lender shall obtain a credit report on any applicant for a loan under this section from at least one national credit bureau organization. The eligible lender may charge the applicant an amount not to exceed the lesser of $25 or the actual cost of obtaining the credit report. An applicant who, the eligible lender determines has a negative credit history shall be denied a loan unless the applicant obtains a creditworthy cosigner in order to obtain the loan, except that for the purpose of this subsection, an insufficient or non-existent credit history may not be considered to be a negative credit history.

(f) ADMINISTRATIVE FEE REQUIRED.—(1) An eligible lender is authorized to charge the borrower an administrative fee in an amount not to exceed 5 percent of the principal amount of the loan to be paid by the eligible lender to the Secretary in accordance with the provisions of this subsection.

(2) The Secretary shall enter into agreements with eligible lenders under which the administrative fee which the eligible lender is authorized to charge pursuant to paragraph (1) of this subsection is paid to the Secretary.

(3) No loan made under this section may be guaranteed under this part unless the eligible lender enters into an agreement with the Secretary under paragraph (2).

CONSOLIDATED LOANS

SEC. 428C. (a) AGREEMENTS WITH ELIGIBLE LENDERS.—

(1) AGREEMENT REQUIRED FOR INSURANCE COVERAGE.—For the purpose of providing loans to eligible borrowers for consolidation of their obligations with respect to eligible student loans, the Secretary or a guaranty agency shall enter into agreements in accordance with subsection (b) with the following eligible lenders:

(A) the Student Loan Marketing Association;

(B) State agencies described in subparagraphs (D) and (F) of section 435(d)(1); and

(C) other eligible lenders described in subparagraphs (A), (B), (C), (E), and (J) of such section.

(2) INSURANCE COVERAGE OF CONSOLIDATION LOANS.—Except as provided in section 429(e), no contract of insurance under this part shall apply to a consolidation loan unless such loan is made under an agreement pursuant to this section and is covered by a certificate issued in accordance with subsection (b)(2). Loans covered by such a certificate that is issued by a guaranty agency shall be considered to be insured loans for the purposes of reimbursements under section 428(c), but not payment shall be made with respect to such loans under section 428(f) to any such agency.

(3) DEFINITION OF ELIGIBLE BORROWER.—(A) For the purpose of this section, the term "eligible borrower" means a borrower who, at the time of application for a consolidation loan—

(i) has an outstanding indebtedness on eligible student loans, at the time of application for a consolidation loan, of not less than $5,000; and

(ii) is in repayment status, or in a grace period preceding repayment, and is not delinquent with respect to any required payment on such indebtedness by more than 90 days.

(B) An individual's status as an eligible borrower under this section terminates upon receipt of a consolidation loan under this section except with respect to eligible student loans received after the date of receipt of the consolidation loan. Loans made under this section shall, to the extent used to discharge loans made under this title, be counted against the applicable limitations on aggregate indebtedness contained in sections 425(a)(2), 428(b)(1)(B), 428A(b)(2), and 464(a)(2). Nothing in this subparagraph shall be interpreted to authorize the Secretary to require lenders, holders, or guarantors of consolidation loans to receive, to maintain, or to make reports with respect to preexisting records relating to any eligible student loan (as defined under section 428C(a)(4)) discharged by a borrower in receiving a consolidation loan.

(4) DEFINITION OF ELIGIBLE STUDENT LOANS.—[For] *(A) Except as provided in subparagraph (B), for* the purpose of paragraph (1), the term "eligible student loans" means loans—

[A] *(i)* made, insured, or guaranteed under this part except for loans made to parent borrowers under section 428B, including loans made to parent borrowers under section 428B as in effect prior to the enactment of the Higher Education Amendments of 1986;

[B] *(ii)* made under part E of this title; or

[C] *(iii)* made under subpart II of part C of title VII of the Public Health Service Act.

(B) The term "eligible student loan" does not include any loan which is obtained for a course of study of 12 months or less, unless the amount to be consolidated is greater than $7,500.

SECS. 428 D–E.* * *

REHABILITATION OF DEFAULTED LOANS

SEC. 428F. (a) AUTHORITY TO ESTABLISH PILOT PROGRAM.—The Secretary shall, in accordance with the requirements of this section, establish a pilot program to test the feasibility of rehabilitating defaulted loans under this part. Such pilot program shall be commenced within 3 months after the date of enactment of this section and shall be completed not later than 3 years after such date. The Secretary shall submit a report on the results of such pilot program within 3 months after its completion.

(b) METHOD OF REHABILITATION.—

(1) SALE OF LOAN PURSUANT TO AGREEMENT.—Upon securing consecutive payments for 12 months of amounts owed on a loan for which the Secretary has made a payment under section 428(c)(1), the guaranty agency (pursuant to an agreement with the Secretary) or the Secretary shall, if practicable, sell the rehabilitated loan to an eligible lender, other than an eligible lender who has been found by the guaranty agency or the Secretary to have substantially failed to exercise the due diligence required of lenders under this part.

(2) TERMS OF AGREEMENT.—Such agreement between the guaranty agency and the Secretary shall provide—

(A) for the repayment by the agency to the Secretary of 81.5 percent of the amount of the prinicipal balance outstanding at the time of such sale multiplied by a percentage amount equal to the reinsurance percentage in effect when payment under the guaranty agreement was made with respect to the loan; and

(B) for the reinstatement by the Secretary (I) of the obligation to reimburse such agency for the amount expended by it in discharge of its insurance obligation under its loan insurance program, and (II) of the obligation to pay to the holder of the rehabilitated loan a special allowance pursuant to section 438.

(3) PROCEEDS OF SALES OFFSET AGAINST DEFAULT CLAIMS.—Amounts received by the Secretary pursuant to the sale of rehabilitated loans by a guaranty agency under this paragraph shall be deducted from the calculations of the amount of claims for reimbursement filed by the agency under section 428(c)(1) for the fiscal year in which the amount was received, notwithstanding the fact that the default occurred in a prior fiscal year.

(4) EFFECT OF REHABILITATION ON BORROWER ELIGIBILITY.—Any borrower whose loan is rehabilitated under this subsection shall not be precluded by section 484 from receiving additional assistance under this title (for which he or she is otherwise eligible on the basis of defaulting on the loan prior to rehabilitation.

(5) APPLICABILITY OF OTHER TERMS, CONDITIONS, AND BENEFITS.—A loan which is rehabilitated under this paragraph shall be subject to the same terms and conditions and qualify for the same benefits and privileges as other loans made under this part.

REQUIREMENTS FOR DISBURSEMENT AND ENDORSEMENT OF STUDENT LOANS

Sec. 428G. (a) MULTIPLE DISBURSEMENT REQUIRED.—

(1) TWO DISBURSEMENTS REQUIRED.—The proceeds of any loan made, insured, or guaranteed under this part that is made for any period of enrollment that ends 180 days (or 6 months) or more after the first day of the period of enrollment, and that is for an amount of $1,000 or more, shall be disbursed in 2 or more installments, none of which exceeds one-half of the loan.

(2) MINIMUM INTERVAL REQUIRED.—The interval between the first and second such installments shall be not less than one-half of such period of enrollment, except as necessary to permit the second installment to be disbursed at the beginning of the second semester, quarter, or similar division of such period of enrollment.

(b) INITIAL DISBURSEMENT AND ENDORSEMENT REQUIREMENTS.—

(1) FIRST YEAR STUDENTS.—The first installment of the proceeds of any loan made, insured, or guaranteed under this part that is made to a student borrower who is entering the first year of a program of postsecondary education, and who has not previously obtained a loan under this part, shall not (regardless of the amount of such loan or the duration of the period of enrollment) be endorsed by the eligible institution until 30 days after the borrower begins a course of study but may be delivered to the eligible instituion prior to the end of the 30-day period.

(2) OTHER STUDENTS.—The proceeds of any loan made, insured, or guaranteed under this part that is made to any student other than a student described in paragraph (1) shall not be disbursed more than 30 days prior to the beginning of the period of the enrollment for which the loan is made.

(c) METHOD OF MULTIPLE DISBURSEMENT.—Disbursements under subsections (a) and (b)—

(1) shall be made in accordance with a schedule provided by the institution (under section 428(a)(2)(A)(i)(III)) that complies with the requirements of this section; and

(2) may be made directly by the lender or, in the case of loan under section 428, may be disbursed pursuant to the escrow provisions of subsection (i) of such section.

(d) WITHHOLDING OF SECOND DISBURSEMENT.—A lender or escrow agent that is informed by the borrower or the institution that the borrower has ceased to be enrolled on at least a half-time basis before the disbursement of the second or any succeeding installment shall withhold such disbursement.

(e) AGGREGATION OF MULTIPLE LOANS.—All loans made, insured, or guaranteed under this part other than loans made under section 428A issued for the same period of enrollment shall be considered as a single loan for the purposes of subsection (a) of this section. All loans made pursuant to section 428A of the Act issued for the same period of enrollment shall be considered as a single loan for the purposes of subsection (a) of this section.

(f) EXCLUSION OF PLUS, CONSOLIDATION, AND FOREIGN STUDY LOANS.—The provisions of this section shall not apply in the case of a loan made under section 428B or 428C or made to a student to

cover the cost of attendance at an eligible institution outside the United States.

EXTENDED COLLECTION AND DEMONSTRATION PROGRAM

SEC. 428H. (a) AGREEMENTS FOR DEMONSTRATION PROGRAM.—(1) The Secretary shall, in accordance with the provisions of this section, enter into agreements with guaranty agencies for the establishment of not to exceed 3 demonstration programs for extended efforts on delinquent student loans originally guaranteed by the guaranty agency designed to reduce defaults under this part.

(2) For the purpose of paragraph (1), the term 'guaranty agency' means a guaranty agency described in section 435(j) and section 435(d)(1)(D).

(b) SELECTION OF PARTICIPANTS.—(1) Each guaranty agency desiring to participate in the program authorized by this section shall submit an application to the Secretary at such time and in such manner as the Secretary may prescribe.

(2) The Secretary shall select participants to establish extended collection programs under this section on the basis of—

(A) the applicant's experience and success in working with borrowers and eligible lenders to prevent defaults, including the use of forbearance;

(B) the applicant's experience and success in the use of preclaims assistance, and, if applicable, supplemental preclaims assistance to reduce defaults;

(C) evidence that the applicant will use the program authorized by this section for borrowers who attended traditional 4-year institutions, community colleges, and vocational technical schools, which substantially reflect the overall portfolio of the lenders;

(D) the novel and innovative approaches that the applicant proposes to use in the extended collection demonstration program; and

(E) the commitment of the applicant to the program, as documented in the application.

(3) Each such application shall include—

(A) the modified eligible lender agreement the guaranty agency has adopted for use by eligible lenders participating in the program;

(B) a description of the novel and innovative approaches that the applicant will use in the extended collection demonstration program; and

(C) such additional information as the Secretary may reasonably require to evaluate applications.

(4) In selecting participants under this section, the Secretary shall give priority to applications submitted by guaranty agencies having extensive experience in the administration and collection of student loans, either directly or through use of contract loan servicers.

(c) PROGRAM AGREEMENT.—Each agreement entered into under this section shall include—

(1) the provision of individualized or flexible repayment plans, including plans designed to meet the needs of borrowers

participating in the program who face financial difficulty in repaying their loan;

(2) the performance of due diligence efforts consisting of not less than one telephone attempt dnd one letter to the borrowers every 2 weeks; and

(3) the provision requiring the eligible lenders to furnish to the guaranty agency records of collection efforts and techniques, as specified by the guaranty agency or the Secretary, or both.

(d) ELIGIBILITY OF LOANS FOR INCLUSION IN THE PROGRAM.—Loans made under this part shall be eligible for extended collection pursuant to this section, if—

(1) the location of the borrower is known;

(2) the borrower has made no payments or missed at least 2 consecutive payments;

(3) the loan is at least 120 but less than 180 days delinquent and all due diligence required to the point of sale has been performed;

(4) the loan entered repayment in fiscal year 1987 or later;

(5) the participating guarantor has provided preclaims assistance pursuant to a request by the eligible lender at 60 to 90 days of delinquency; and

(6) the eligible lender providing extended collection efforts is not in possession of information that the loan may be uncollectible.

(e) LENDER ELIGIBILITY TO PARTICIPATE.—An eligible lender may participate in the program authorized by this section pursuant to an agreement entered into under subsection (a), if—

(1) the eligible lender has an agreement with the guaranty agency with which the application is being filed for the guaranty of consolidation loans under section 428C;

(2) the eligible lender is not subject to a limitation, suspension, or termination agreement or default management plan under this part; and

(3) the eligible lender meets such other criteria as the guaranty agency and the Secretary may reasonably require.

(f) EXTENDED COLLECTION PERIOD.—Notwithstanding any other provision of law, loans held pursuant to this part and included in the program authorized by this section may be held by the eligible lender for—

(1) 540 days after the loan becomes delinquent with respect to any installment;

(2) not more than 30 days after the eligible lender participating under this section determines, in accordance with guidelines promulgated by the guaranty agency, that no futher collection effort on the loan is likely to result in repayment by the borrower; or

(3) a period that is within 30 days after notification from the guaranty agency, but no earlier than the 270th day of delinquency,

whichever comes first.

(g) REPORTS TO THE SECRETARY AND TO THE CONGRESS.—(1) Each participant with an agreement with the Secretary to offer an extended collection program shall submit a report once a year to the Secretary describing—

(A) the effectiveness of the program, including statistics on the number of accounts brought into repayment between the 180th day and the submission of the claim;

(B) a statistical summary of the basis for cures of delinquent loans brought current through the program, including specific summaries of the numbers of loans brought into repayment through forbearances, payments, and loan consolidation;

(C) information on strategies used by eligible lenders in the program to effectuate the initiation of repayment; and

(D) evidence of efforts to use the program authorized by this section for borrowers who attended traditional 4-year institutions, community colleges, and vocational technical schools, which substantially reflect the overall portfolio of the lenders.

(2) The Secretary shall, not later than September 30, 1991, prepare and submit an interim report and not later than September 30, 1993, prepare and submit a final report on the demonstration project authorized by this section. The reports required by this section shall evaluate the results of the demonstration conducted under this section, assess the cost and benefits of this demonstration, and include such recommendations as the Secretary may prescribe, including expansion of the demonstration program.

(h) REGULATIONS.—The Secretary shall, within 120 days of the enactment of this section, prescribe regulations providing for the administration of this section.

(i) APPLICABILITY OF OTHER TERMS, CONDITIONS, AND BENEFITS.—A loan subject to the provisions of this section shall be subject to the same terms and conditions and qualify for the same benefits and privileges as other loans made under this part, except as otherwise specifically provided for in this section.

(j) TERMINATION.—The demonstration program shall terminate on September 30, 1993.

SEC. 429–430. * * *

REPORTS TO CREDIT BUREAUS AND INSTITUTIONS OF HIGHER EDUCATION

SEC. 430A. (a) AGREEMENTS TO EXCHANGE INFORMATION.—For the purpose of promoting responsible repayment of loans covered by Federal loan insurance pursuant to this part or covered by a guaranty agreement pursuant to section 428, the Secretary, each guaranty agency, eligible lender, and subsequent holder shall enter into agreements with credit bureau organizations to exchange information concerning student borrowers, in accordance with the requirements of this section. For the purpose of assisting such organizations in complying with the Fair Credit Reporting Act, such agreements may provide for timely response by the Secretary (concerning loans covered by Federal loan insurance), by a guaranty agency, eligible lender, or subsequent holder (concerning loans covered by a guaranty agreement), or to requests from such organizations for responses to objections raised by borrowers. Subject to the requirements of subsection (c), such agreements shall require the Secretary, the guaranty agency, eligible lender, or subsequent holder, as appropriate, to disclose to such organizations, with respect to any loan under this part that has not been repaid by the borrower—

(1) the total amount of loans made to any borrower under this part and the remaining balance of the loans;

(2) information concerning the date of any default on the loan and the collection of the loan, including information concerning the repayment status of any defaulted loan on which the Secretary has made a payment pursuant to section 430(a) or the guaranty agency has made a payment to the previous holder of the loan; [and]

(3) with respect to any payment on a loan that has been delinquent for 90 days, information concerning the date the delinquency began and the repayment status of the loan; and

[(3)] *(4)* the date of cancellation of the note upon completion of repayment by the borrower of the loan or payment by the Secretary pursuant to section 437.

(b) ADDITIONAL INFORMATION.—Such agreements may also provide for the disclosure by such organizations to the Secretary or a guaranty agency, whichever insures or guarantees a loan, upon receipt of a notice under subsection (a)(2) that such a loan is in default, of information concerning the borrower's location or other information which may assist the Secretary, the guaranty agency, the eligible lender, or the subsequent holder in collecting the loan.

(c) CONTENTS OF AGREEMENTS.—Agreements entered into pursuant to this section shall contain such provisions as may be necessary to ensure that—

(1) no information is disclosed by the Secretary or the guaranty agency, eligible lender, or subsequent holder unless its accuracy and completeness have been verified and the Secretary or the guaranty agency has determined that disclosure would accomplish the purpose of this section;

(2) as to any information so disclosed, such organizations will be promptly notified of, and will promptly record, any change submitted by the Secretary, the guaranty agency, eligible lender, or subsequent holder with respect to such information, or any objections by the borrower with respect to any such information, as required by section 611 of the Fair Credit Reporting Act (15 U.S.C. 1681i);

(3) no use will be made of any such information which would result in the use of collection practices with respect to such a borrower that are not fair and reasonable or that involve harassment, intimidation, false or misleading representations, or unnecessary communication concerning the existence of such loan or concerning any such information; [and]

(4) with regard to notices of default under subsection (a)(2) of this section, except for disclosures made to obtain the borrower's location, the Secretary, or the guaranty agency, eligible lender, or subsequent holder whichever is applicable (A) shall not disclose any such information until the borrower has been notified that such information will be disclosed to credit bureau organizations unless the borrower enters into repayment of his or her loan, but (B) shall, if the borrower has not entered into repayment within a reasonable period of time, but not less than 30 days, form the date such notice has been sent to the borrower, disclose the information required by this subsection[.]*; and*

(5) with respect to notices of delinquency under subsection (a)(3), the borrower is informed that credit bureau organizations will be notified of any payment that is delinquent for 90 days or more.

(d) CONTRACTOR STATUS OF PARTICIPANTS.—A guaranty agency, eligible lender, or subsequent holder or credit bureau organization which discloses or receives information under this section shall not be considered a Government contractor within the meaning of section 552a of title 5, United States Code.

(e) DISCLOSURE TO INSTITUTIONS.—The Secretary and each guaranty agency, eligible lender, and subsequent holder of a loan are authorized to disclose information described in subsections (a) and (b) concerning student borrowers to the eligible institutions such borrowers attend or previously attended. To further the purpose of this section, an eligible institution may enter into an arrangement with any or all of the holders of delinquent loans made to borrowers who attend or previously attended such institution for the purpose of providing current information regarding the borrower's location or employment or for the purpose of assisting the holder in contacting and influencing borrowers to avoid default.

(f) DURATION OF AUTHORITY.—Notwithstanding paragraphs (4) and (6) of subsection (a) of section 605 of the Fair Credit Reporting Act (15 U.S.C. 1681(a)(4), (a)(6)), a consumer reporting agency may make a report containing information received from the Secretary or a guaranty agency, eligible lender, or subsequent holder regarding the status of a borrower's defaulted account on a loan guaranteed under this part until—

(1) 7 years from the date on which the Secretary or the agency paid a claim to the holder on the guaranty, or

(2) with regard to an account on a loan on which the Secretary or the guaranty agency has paid a claim but not reported the account to a consumer reporting agency on or before October 1, 1985, 7 years form that date.

DEFAULT MANAGEMENT PLAN

SEC. 430B. (a) GUARANTY AGENCY DEFAULT MANAGEMENT PLAN REQUIRED.—(1)(A) The Secretary shall determine the default rate in accordance with the provisions of subsection (e) for each guaranty agency. Each guaranty agency which the Secretary determines has a default rate in excess of 25 percent shall develop and carry out a default management plan in accordance with the provisions of this section.

(B) Each guaranty agency which is in the highest 5 percent by volume of defaulted student loans measured by dollar value, as published by the Secretary in accordance with section 432A(a)(2)(B), shall be subject to a program review conducted by the Secretary. If the Secretary determines that the default management practices of the guaranty agency substantially contribute to the high dollar value default of student loans, the Secretary shall develop and implement a default management plan for such guaranty agency.

(2)(A) The Secretary may, in any default management plan required by paragraph (1) of this subsection, require the guaranty agency to carry out any or all of the default management provisions

set forth in subparagraph (B). The default management provisions selected for inclusion in the default management plan shall be based upon the results of an evaluation of operations conducted by the Secretary.

(B) The default management provisions to which subparagraph (A) relate are—

(i) mandatory preclaims assistance;

(ii) mandatory supplemental preclaims assistance for default prevention;

(iii) development and distribution of default management materials;

(iv) additional training in the administration of the programs under part B of this title;

(v) training of school personnel on default prevention;

(vi) training of lender personnel on default prevention;

(vii) waiver of program review regulations so that the guaranty agency can focus on eligible institutions and lenders with excessive default rates; and

(viii) collection of additional information from borrowers.

(C) The Secretary, with the agreement of the guaranty agency, may require other measures designed to increase the collection of Stafford student loans, particularly measures appropriate to the communities served by the guaranty agency subject to the default management plan.

(b) ELIGIBLE LENDER AND ELIGIBLE INSTITUTION DEFAULT MANAGEMENT PLAN REQUIRED.—(1)(A) The Secretary shall determine the default rate, in accordance with subsection (e), for each eligible lender and for each eligible institution. Each eligible lender and each eligible institution which has a default rate in excess of 25 percent calculated in accordance with subsection (e) shall develop and implement a default management plan with the designated State guaranty agency for the State in which such lender or institution is located.

(B) Each eligible institution which has a high default rate measured by dollar value, as determined by the Secretary, and which is in the highest 5 percent by dollar value of defaulted students loans, as published by the Secretary in accordance with section 432A(a)(2)(B), shall be subject to an evaluation of operations conducted by the designated State guaranty agency for the State in which such lender or institution is located. If such guaranty agency determines that the default management practices of the lender or institution substantially contribute to the high dollar value default of student loans, the guaranty agency shall develop and implement a default management plan for such lender or institution.

(C) No eligible lender and no eligible institution is subject to subparagraph (A) unless the lender or institution has at least 25 loans that are in default in the fiscal year for which the determination is made.

(D) The Secretary shall require the designated guaranty agency for each State to require each eligible lender and each eligible institution located within the State described in subparagraph (A) to develop and implement a default management plan.

(E) Each designated guaranty agency for a State may transfer the responsibilities for carrying out this section to another guaranty

agency whenever the other guaranty agency guarantees a significant portion of loans for the eligible lender or eligible institution which is the subject of the default management plan. Whenever there is significant multi-State activity any lender, the Secretary shall determine each party which will carry out the responsibilities of this section, except that, in the case of the Student Loan Marketing Association, the Secretary shall carry out the responsibilities of the guaranty agency under this section.

(2)(A) The Secretary shall require the designated guaranty agency for a State to require each eligible lender subject to a default management plan to carry out any or all of the default management provisions set forth in subparagraph (B). The default management provisions selected for inclusion in the default management plan shall be based upon the results of an evaluation of operations conducted by the guaranty agency.

(B) The default management provisions to which subparagraph (A) applies are—

(i) additional training in the administration of the programs under part B of this title;

(ii) development of personal financial planning materials to be used in counseling borrowers on planning for repayment of Stafford Loans;

(iii) establishment of a loan repayment lenders hot line under which borrowers may receive information relating to the repayment status of the student loan, deferments, forbearances, and other rights and responsibilities under the Stafford Loan program;

(iv) development of information readily understood by the average student relating to forbearance, deferments, and consolidation opportunities;

(v) provision of additional services, including collection and skip-tracing activities, relating to loans held by the lender in any case in which the borrower cannot be found;

(vi) provisions for the eligible lender to collect additional information from borrowers, but which may not be required to be a part of the loan applicaton;

(vii) additional program reviews or audits relating to the performance of responsibilities under the Stafford student loan program;

(viii) provisions requiring loans to be multiply disbursed regardless of program length; and

(ix) provisions for technical assistance to be furnished by the State guaranty agency or its designee.

(C) The designated guaranty agency, with the agreement of the lender, may require other measures designed to increase the collection of student loans, particularly measures which are appropriate to the eligible lender subject to the default management plan.

(3)(A) The Secretary shall require each designated guaranty agency for a State to require each eligible institution to which a default management plan applies to carry out any or all of the default management provisions set forth in subparagraph (B). The default management provisions selected for inclusion in the default management plan shall be based upon the results of an evaluation of operations conducted by the guaranty agency.

(B) The default management provisions to which subparagraph (A) applies are—

(i) additional training in the administration of the programs under part B of this title;

(ii) provisions requiring that an eligible institution take necessary action, including reporting information on new addresses of student borrowers, for students who are delinquent or in default within 45 days of the notification of delinquency or default;

(iii) provisions for technical assistance in the operation of Stafford student loan programs to be provided by the guaranty agency or its designee;

(iv) provisions for entrance interviews for student borrowers to be conducted by the eligible institution;

(v) provisions for enhanced information sharing with the guaranty agency;

(vi) provisions for an independent audit of the operation of the student financial aid programs under part B of this title of the eligible institution;

(vii) provisions requiring that the eligible institutional verification required by section 484(F) of this Act on student loan eligibility data be increased up to 100 percent of such verification;

(viii) provisions requiring that the eligible institution collect additional information from borrowers;

(ix) periodic reporting on the status of students receiving aid under part B of this title at the eligible institution;

(x) provisions for an eligible institution to furnish the guarnty agency with information on student admissions procedures, withdrawals, and placement rates; and

(xi) provisions to prevent loan defaults by altering student aid packaging policies at the institution.

(C) The designated guaranty agency, with the agreement of the institution, may require other measures designed to increase the collection of student loans, particularly measures which are appropriate for the eligible institution subject to the default management plan.

(c) PROCEDURAL REQUIREMENTS.—(1) Each default management plan required by this section shall be developed not later than 120 days after the Secretary or the guaranty agency, as the case may be, determines that such a plan is required pursuant to subsection (a) or subsection (b), as the case may be. Each such default plan shall be for a period of 3 years.

(2) Each default management plan which is developed during the first fiscal year after the date of enactment of the Stafford Student Loan Default Prevention and Management Act of 1988 shall be based upon an initial determination of the default rate in accordance with subsection (e)(5)(B).

(3) Whenever a guaranty agency, an eligible lender, or an eligible institution notifies the Secretary that—

(A) the action of the Secretary, or of a guaranty agency, in requiring a default management plan under this section is arbitrary, or

(B) in carrying out the enforcement provisions of this section and the determination of eligibility under sections 435(j), 435(d), and 435(a) of this Act with respect to a default management

plan, the action of the Secretary or a guaranty agency is arbitrary,

the Secretary shall afford the guaranty agency, the eligible lender, or the eligible institution, as the case may be, notice and opportunity for a hearing.

(d) ENFORCEMENT PROCEDURES.—(1) If any eligible institution or eligible lender fails to substantially comply with the default management plan to which such institution or lender is subject—

(A) the Secretary shall initiate a limitation, suspension, or termination proceeding under section 487(c)(1)(D) with respect to an eligible institution's eligibility to participate in the program under part B of this title, or

(B) the Secretary, through the appropriate guaranty agency, shall initiate a limitation, suspension, or termination proceeding under section 428(b)(1)(U) with respect to an eligible lender's eligibility to participate in the program under part B of this title.

(2) If any eligible institution or eligible lender fails to reduce the default rate below 25 percent within 3 years after entering into a default management plan under this section—

(A) the Secretary, upon the recommendation of the appropriate guaranty agency, shall initiate a limitation, suspension, or termination proceeding under section 487(c)(1)(D) with respect to an eligible institution's eligibility to participate in the program under part B of this title, or

(B) the Secretary, upon the recommendation of the appropriate guaranty agency, through the appropritate guaranty agency, shall initiate a limitation, suspension, or termination proceeding under section 428(b)(1)(U) with respect to an eligible lender's eligibility to participate in the prgoram under part B of this title.

(3) If any eligible institution or eligible lender fails to drop the default rate below 25 percent within 3 years after entering into a default management plan under this section, and is not subject to subparagraph (A) or (B) of paragraph (2), such an eligible institution or eligible lender shall enter into a new default management plan in accordance with the provisions of this section.

(e) CALCULATION OF DEFAULT RATE.—(1) For the purpose of this section, the Secretary shall prescribe the method of calculating the default rate in accordance with paragraphs (2) through (7).

(2) The default rate shall be expressed as a percentage for the subject fiscal year, determined by dividing—

(A) the total principal outstanding on loans which entered repayment in the fiscal year for which the determination is made and on which reinsurance claims are filed in the fiscal year for which the determination is made plus the 2 succeeding fiscal years; by

(B) the total principal outstanding on loans in repayment which entered repayment in the fiscal year for which the determination is made.

(3) The default rate for a subject fiscal year calculated under paragraph (2) shall be further modified by averaging the default rate calculated for the fiscal year, the default rate calculated for the fiscal year preceding the fiscal year for which the determination is

made, and the default rate for the second preceding fiscal year for which the determination is made.

(4) The Secretary shall calculate the default rate for guaranty agencies, for eligible lenders, and for eligible institutions.

(5)(A) The Secretary shall calculate the default rate for fiscal year 1986, and for each succeeding fiscal year.

(B) For the first year after the date of enactment of this section, the Secretary shall calculate the default rate in accordance with paragraphs (2) and (3) with such modifications as the Secretary determines may be necessary. In carrying out the provisions of this subparagraph, the Secretary may average 2 fiscal years for the default rate for such first year calculation.

(6) In calculating the default rate in accordance with this subsection, the secretary shall—

(A) delete from the calculation described in paragraph (2)(A)(i) the amount of loans in default that return to repayment status; and

(B) with respect to the default rate for an eligible institution, include only loans attributable to the institution which the student attended when the loan was made.

(7) The Secretary shall, whenever data is unavailable, make necessary estimates consistent with the provisions of this subsection to carry out the provisions of this subsection.

(f) DEFINITION.—For the purpose of this section, the term "eligible lender" includes the holder of the loan.

SEC. 432. (a)–(i) * * *

ADMINISTRATIVE PROVISIONS RELATING TOI THE REDUCTION OF DEFAULT

SEC. 432A. (a) GENERAL AUTHORITY.—(1) The Secretary shall develop and publish an annual default report to the Congress beginning on December 31, 1988, which shall include the annual default rate for the Stafford student loan program under this part.

(2)(A) The report required by this section shall include a summary of the default rates determined under section 10(e). The report shall also include the net dollar value in default for each guaranty agency, each eligible lender, and each eligible institution.

(B) The Secretary shall prepare a list of guaranty agencies and a list of eligible institutions in the order of the dollar value of Stafford student loans in default for each such agency and institution. The Secretary shall identify the highest 5 percent of guaranty agencies and eligible institutions on the lists required by this subparagraph.

(b) PROGRAM REVIEW OF ELIGIBLE INSTITUTIONS AND ELIGIBLE LENDERS.—The Secretary shall develop a plan for the conduct of program reviews of all eligible institutions, all guaranty agencies, and all eligible lenders. The plan shall be published in the Federal Register for public comment. The Secretary shall report to the Congress annually on the results of the reviews required by this subsection.

(c) PRIORITY FOR PROGRAM REVIEW.—In carrying out the provisions of subsection (b), the Secretary shall give priority to the conduct of program reviews of guaranty agencies and eligible institu-

tions which have the highest rates of default on such loans, and which have the highest dollar value of loans made, insured, or guaranteed under part B which are in default.

(d) REVIEW AND DISSEMINATION OF MODEL AND CONSTRUCTIVE DEFAULT PREVENTION PROCEDURES.—The Secretary shall collect, analyze, and disseminate information on novel and model default prevention procedures.

* * * * * * *

DEFINITIONS FOR STUDENT LOAN INSURANCE PROGRAM

SEC. 435. As used in this part:

(a) ELIGIBLE INSTITUTION.—

(1) IN GENERAL.—[The term] *Subject to subsection (m), the term,* "eligible institution" means—

(A) an institution of higher education;

(B) a vocational school; or

(C) with respect to students who are nationals of the United States, an institution outside the United States which is comparable to an institution of higher education or to a vocational school and which has been approved by the Secretary for the purpose of this part,

except that such term does not include any such institution or school which employs or uses commissioned salesmen to promote the availability of any loan program described in section 428(a)(1), 428A, or 428B at that institution or school.

(2) FOREIGN MEDICAL SCHOOLS.—For the purpose of qualifying an institution under paragraph (1)(C) of this subsection, the Secretary shall establish criteria by regulation. In the case of a graduate medical school outside the United States, such criteria shall include a requirement that a student attending a medical school is ineligible for loans made, insured, or guaranteed under this part unless at least 60 percent of the students enrolled in such school are nationals of the country in which the school is located. A school that is unable to meet that criteria may establish the eligibility of its students for such loans if the United States nationals attending such school achieve a pass rate on the examinations administered by the Educational Commission for Foreign Medical Graduates that is—

(A) not less than 45 percent for students taking such examination in the first and second years after the date of enactment of the Higher Education Amendments of 1986; and

(B) not less than 50 percent for students taking such examination in any subsequent year.

(3) DISQUALIFICATION FOR FAILURE TO DEVELOP DEFAULT MANAGEMENT PLAN.—The term "eligible instutution" does not include any such institution which fails or refuses to develop a default management plan in accordance with section 430B.

(b) INSTITUTION OF HIGHER EDUCATION.—The term "institution of higher education" means an educational institution in any State which—

(1) admits as regular students only persons having a certificate of graduation from a school providing secondary educa-

tion, or the recognized equivalent of such certificate, or who are beyond the age of complusory school attendance;

(2) is legally authorized within such State to provide a program of education beyond secondary education;

(3) provides an educational program for which it awards a bachelor's degree or provides not less than a 2-year program which is acceptable for full credit toward such a degree, or in the case of a hospital or health care facility, which provides training of not less than one year for graduates of accredited health professions programs, leading to a degree or certificate upon completion of such training;

(4) is a public or other nonprofit institution; and

(5) is accredited by a nationally recognized accrediting agency or association approved by the Secretary for this purpose or, if not so accredited—

(A) is an institution with respect to which the Secretary has determined that there is satisfactory assurance, considering the resources available to the institution, the period of time, if any, during which it has operated, the effort it is making to meet accreditation standards, and the purpose for which this determination is being made, that the institution will meet the accreditation standards of such an agency or association within a reasonable time; or

(B) is an institution whose credits are accepted on transfer by not less than three institutions which are so accredited, for credit on the same basis as if transferred from an institution so accredited.

Such term includes any school which provides not less than a 1-year program of training to prepare students for gainful employment in a recognized occupation and which meets the provisions of paragraphs (1), (2), (4), and (5). If the Secretary determines that a particular category of such schools does not meet the requirements of paragraph (5) because there is no nationally recognized accrediting agency or association qualified to accredit schools in such category, the Secretary shall, pending the establishment of such an accrediting agency or association, appoint an advisory committee, composed of persons specially qualified to evaluate training provided by schools in such category, which shall (i) prescribe the standards of content, scope, and quality which must be met in order to qualify schools in such category to participate in the program pursuant to this part, and (ii) determine whether particular schools not meeting the requirements of paragraph (5) meet those standards. For the purpose of this subsection, the Secretary shall publish a list of nationally recognized accrediting agencies or associations which the Secretary determines to be reliable authorities as to the quality of training offered.

(c) VOCATIONAL SCHOOL.—The term "vocational school" means a business or trade school, or technical institution or other technical or vocational school, in any State, which—

(1) admits as regular students only persons who have completed or left elementary or secondary school and who have the ability to benefit (as determined by the institution under section 481(d)) from the training offered by such institution;

(2) is legally authorized to provide, and provides within that State, a program of postsecondary vocational or technical education designed to fit individuals for useful employment in recognized occupations;

(3) has been in existence for 2 years or has been specially accredited by the Secretary as an institution meeting the other requirements of this subsection; and

(4) is accredited—

(A) by a nationally recognized accrediting agency or association listed by the Secretary pursuant to this paragraph;

(B) if the Secretary determines that there is no nationally recognized accrediting agency or association qualified to accredit schools of a particular category, by a State agency listed by the Secretary pursuant to this paragraph; and

(C) if the Secretary determines there is no nationally recognized or State agency or association qualified to accredit schools of a particular category, by an advisory committee appointed by the Secretary and composed of persons specially qualified to evaluate training provided by schools of that category, which committee shall prescribe the standards of content, scope, and quality which must be met by those schools in order for loans to students attending them to be insurable under this part and shall also determine whether particular schools meet those standards.

For the purpose of this subsection, the Secretary shall publish a list of nationally recognized accrediting agencies or associations and State agencies which the Secretary determines to be reliable authority as to the quality of education or training afforded.

(d) ELIGIBLE LENDER.—

(1) IN GENERAL.—Except as provided in paragraphs (2) through (5), the term "eligible lender" means—

(A) a National or State chartered bank, a mutual savings bank, a savings and loan association, a stock savings bank, a trust company, or a credit union which—

(i) is subject to examination and supervision by an agency of the United States or of the State in which its principal place of operation is established, and

(ii) does not have as its primary consumer credit function the making or holding of loans made to students under this part unless (I) it is a bank which is wholly owned by a State, (II) it is a single wholly owned subsidiary of a bank holding company which does not have as its primary consumer credit function the making or holding of loans made to students under this part, or (III) it is a trust company which makes student loans as a trustee pursuant to an express trust and which operated as a lender under this part prior to January 1, 1981;

(B) a pension fund as defined in the Employee Retirement Income Security Act;

(C) an insurance company which is subject to examination and supervision by an agency of the United States or a State;

(D) in any State, a single agency of the State or a single nonprofit private agency designated by the State;

(E) an eligible institution which meets the requirements of paragraphs (2) through (5) of this subsection;

(F) for purposes only of purchasing and holding loans made by other lenders under this part, the Student Loan Marketing Association or an agency of any State functioning as a secondary market;

(G) for purposes of making loans under sections 428A(d), 428B(d), 428C, and 439(q), the Student Loan Marketing Association;

(H) for purposes of making loans under sections 428(h) and 428(j), a guaranty agency;

(I) a Rural Rehabilitation Corporation, or its successor agency, which has received Federal funds under Public Law 499, Eighty-first Congress (64 Stat. 98 (1950)); and

(J) for purpose of making loans under section 428C, any nonprofit private agency functioning in any State as a seendary market.

(2) ADDITIONAL REQUIREMENTS OF ELIGIBLE INSTITUTIONS.—To be an eligible lender under this part, an eligible institution—

(A) shall employ at least one person whose full-time responsibilities are limited to the administration of programs of financial aid for students attending such institution;

(B) shall not be a home student school;

(C) shall make loans to not more than 50 percent of the undergraduate students at the institutions; [1] and

(D) shall not make a loan, other than a loan to a graduate or professional student, unless the borrower has previously received a loan from the school or has been denied a loan by an eligible lender;

except that the requirements of subparagraphs (C) and (D) shall not apply with respect to loans made, and loan commitments made, after the date of enactment of the Higher Education Amendments of 1986 and prior to July 1, 1987.

(3) DISQUALIFICATION FOR HIGH DEFAULT RATES.—The term "eligible lender" does not include any eligible institution in any fiscal year immediately after the fiscal year in which the Secretary determines, after notice and opportunity for a hearing, that for each of 2 consecutive years, 15 percent or more of the total amount of such loans as are described in section 428(a)(1) made by the institution with respect to students at that institution and repayable in each such year, are in default, as defined in section 435(o).

(4) WAIVER OF DISQUALIFICATION.—Whenever the Secretary determines that—

(A) there is reasonable possibility that an eligible institution may, within 1 year after a determination is made under paragraph (3), improve the collection of loans described in section 428(a)(1), so that the application of paragraph (3) would be a hardship to that institution, or

(B) the termination of the lender's status under paragraph (3) would be a hardship to the present or for prospective students of the eligible institution, after consider-

ing the management of that institution, the ability of that institution to improve the collection of loans, the opportunities that institution offers to economically disadvantaged students, and other related factors,

The Secretary shall waive the provisions of paragraph (3) with respect to that institution. Any determination required under this paragraph shall be made by the Secretary prior to the termination of an eligible institution as a lender under the exception of paragraph (3). Whenever the Secretary grants a waiver pursuant to this paragraph, the Secretary shall provide technical assistance to the institution concerned in order to improve the collection rate of such loans.

(5) DISQUALIFICATION FOR USE OF CERTAIN INCENTIVES.—The term "eligible lender" does not include any lender that the Secretary determines, after notice and opportunity for a hearing, has after the date of enactment of this paragraph—

(A) offered, directly or indirectly, points, premiums, payments, or other inducements, to any educational institution or individual in order to secure applicants for loans under this part;

(B) conducted unsolicited mailings to students of student loan application forms, except to students who have previously received loans under this part from such lender;

(C) offered, directly or indirectly, loans under this part as an inducement to a prospective borrower to purchase a policy of insurance or other product; or

(D) engaged in fraudulent or misleading advertising.

(6) DISQUALIFICATION FOR FAILURE TO DEVELOP DEFAULT MANAGEMENT PLAN.—The term "eligible lender" does not include any such lender which fails or refuses to develop a default management plan in accordance with section 430B.

(7) INFORMATION ON DELINQUENT LOANS.—To be an eligible lender under this part, each eligible lender shall notify the appropriate guaranty agency of the delinquency of a borrower within 120 days of the date on which the loan made, insured, or guaranteed under this part is delinquent and the guaranty agency shall upon request provide such information to an eligible institution.

DEFINITIONS FOR STUDENT LOAN INSURANCE PROGRAM

SEC. 435. * * *

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(j) GUARANTY AGENCY.—

(1) IN GENERAL.—The term "guaranty agency" means any State or nonprofit private institution or organization with which the Secretary has an agreement under section 428(b).

(2) DISQUALIFICATION FOR FAILURE TO DEVELOP DEFAULT MANAGEMENT PLAN.—The term "guaranty agency" does not include any such agency which fails or refuses to develop a default management plan in accordance with section 430B.

SEC. 435. (k)–(l) * * *

(m) IMPACT OF LOSS OF ACCREDITATION.—An institution may not be certified or recertified as an eligible institution under subsection (a) of this section if such institution—

(1) had its institutional accreditation withdrawn, revoked, or otherwise terminated for cause during the preceding 24 months; or

(2) has withdrawn from institutional accreditation voluntarily under the show cause order or suspension order during the preceding 24 months;

unless—

(A) such accreditation has been restored by the same accrediting agency which had accredited it prior to the withdrawal, revocation, or termination; or

(B) the institution has demonstrated its academic integrity to the satisfaction of the Secretary in accordance with section 1201(a)(5) (A) or (B) of this Act.

SEC. 436–438. * * *

STUDENT LOAN MARKETING ASSOCIATION

SEC. 439. (a)–(b). * * *

[(c) BOARD OF DIRECTORS.—

[(1) BOARD MEMBERSHIP.—The Association shall have a Board of Directors which shall consist of twenty-one persons, one of whom shall be designated Chairman by the President.

[(2) INTERIM BOARD.—An interim Board of Directors shall be appointed by the President, one of whom he shall designate an interim Chairman. The interim Board shall consist of twenty-one members, seven of whom shall be representative of banks or other financial institutions which are insured lenders pursuant to this section, seven of whom shall be representative of educational institutions, and seven of whom shall be representative of the general public. The interim Board shall arrange for an initial offering of common and preferred stocks and take whatever other actions are necessary to proceed with the operations of the Association.

[(3) REGULAR BOARD.—When, in the judgment of the President, sufficient common stock of the Association has been purchased by educational institutions and banks or other financial institutions, the holders of common stock which are educational institutions shall elect seven members of the Board of Directors and the holders of common stock which are banks or other financial insitutions shall elect seven members of the Board of Directors. The President shall appoint the remaining seven directors, who shall be representative of the general public.

[(4) SUCCESSION OF REGULAR BOARD.—At the time the events described in paragraph (3) have occurred, the interim Board shall turn over the affairs of the Association to the regular Board so chosen or appointed.

[(5) TERMS OF APPOINTED AND ELECTED MEMBERS.—The directors appointed by the President shall serve at the pleasure of the President and until their successors have been appointed and have qualified. The remaining directors shall each be elected for a term ending on the date of the next annual meet-

ing of the common stockholders of the Association, and shall serve until their successors have been elected and have qualified. Any appointive seat on the Board which becomes vacant shall be filled by appointment of the President. Any elective seat on the Board which becomes vacant after the annual election of the directors shall be filled by the Board, but only for the unexpired portion of the term.

[(6) MEETINGS AND FUNCTIONS OF BOARD.—The Board of Directors shall meet at the call of its Chairman, but at least semiannually. The Board shall determine the general policies which shall govern the operations of the Association. The Chairman of the Board shall, with the approval of the Board, select, appoint, and compensate qualified persons to fill the offices as may be provided for in the bylaws, with such executive functions, powers, and duties as may be prescribed by the bylaws or by the Board of Directors, and such person shall be the executive officers of the Association and shall discharge all such executive functions, powers, and duties.]

(c) BOARD OF DIRECTORS.—

(1) COMPOSITION OF BOARD; CHAIRMAN.—The Association shall have a Board of Directors which shall consist of 19 persons, 4 of whom shall be appointed by the President of the United States. The remaining 15 directors shall be elected by the common stockholders of the Association entitled to vote pursuant to subsection (f). Commencing with the annual shareholders meeting to be held in 1989—

(A) 5 of the elected directors shall be affiliated with an eligible institution,

(B) 5 of the elected directors shall be affiliated with an eligible lender, and

(C) 5 of the elected directors shall not be affiliated with an eligible lender or eligible insititution but shall have substantial experience in the management of private sector corporations the shares of which are listed on a national securities exchange.

The Board of Directors shall elect one of the directors to serve as Chairman.

(2) TERMS OF APPOINTED AND ELECTED MEMBERS.—The directors appointed by the President shall serve at the pleasure of the President and until their successors have been appointed and have qualified. The remaining directors shall each be elected for a term ending on the date of the next annual meeting of the common stockholders of the Association, and shall serve until their successors have been elected and have qualified. Any appointive seat on the Board which becomes vacant shall be filled by appointment of the President. Any elective seat on the Board which becomes vacant after the annual election of the directors shall be filled by the Board, but only for the unexpired portion of the term.

(3) AFFILIATED MEMBERS.—For the purpose of this subsection, the references to a director "affiliated with an eligible institution" or a director "affiliated with an eligible lender" means an individual who is, or within 5 years of election to the Board

of Directors has been, an employee, officer, director, or similar official of—

(A) an eligible institution or an eligible lender, as the case may be;

(B) an association whose members consist primarily of eligible institutions or eligible lenders, as the case may be; or

(C) a State agency, authority, instrumentality, commission or similar institution the primary purpose of which relates to educational matters or banking matters, as the case may be.

(4) MEETINGS AND FUNCTIONS OF BOARD.—The Board of Directors shall meet at the call of its Chairman, but at least semiannually. The Board shall determine the general policies which shall govern the operations of the Association. The Chairman of the Board shall, with the approval of the Board, select, appoint, and compensate qualified persons to fill the offices as may be provided for in the bylaws, with such functions, powers, and duties as may be prescribed by the bylaws or by the Board of Directors, and such persons shall be the officers of the Association and shall discharge all such functions, powers, and duties.

* * * * * * *

(f) STOCK OF THE ASSOCIATION.—

[(1) COMMON STOCK TO INSURED LENDERS AND ELIGIBLE INSTITUTIONS ONLY.—The Association shall have common stock having such par value as may be fixed by its Board of Directors from time to time which may be issued only to lenders under this part, pertaining to guaranteed student loans, who are qualified as insured lenders under this part or who are eligible institutions, as defined in section 435(a), other than an institution outside of the United States.

[(2) VOTING RIGHTS.—Each share of common stock shall be entitled to one vote with rights of cumulative voting at all elections of Directors. Voting shall be by classes as described in subsection (c)(3).]

(1) VOTING COMMON STOCK.—The Association shall have voting common stock having such par value as may be fixed by its Board of Directors from time to time. Each share of voting common stock shall be entitled to one vote with rights of cumulative voting at all elections of Directors.

[(3)] *(2)* NUMBER OF SHARES; TRANSFERABILITY.—The maximum number of shares of common stock that the Association may issue and have outstanding at any one time shall be fixed by the Board of Directors from time to time. Any common share issued shall be fully transferable, except that, as to the Association, it shall be transferred only on the books of the Association.

[(4)] *(3)* DIVIDENDS.—To the extent that net income is earned and realized, subject to subsection (g)(2), dividends may be declared on common stock and nonvoting common stock by the Board of Directors. Such dividends as may be declared by the Board shall be paid to the holders of outstanding shares of common stock and nonvoting common stock, except that no such dividends shall be payable with respect to any share

which has been called for redemption past the effective date of such call.

[(5)] *(4)* NONVOTING COMMON STOCK.—The Association is authorized to issue nonvoting common stock having such par value as may be fixed by its Board of Directors from time to time. Any nonvoting common stock shall be freely transferable, except that, as to the Association, it shall be transferable only on the books of the Association.

(5) SINGLE CLASS OF VOTING COMMON STOCK.—As of the effective date of the Student Loan Marketing Association Amendments of 1988, all of the previously authorized shares of voting common stock and nonvoting common stock of the Association shall be converted to shares of a single class of voting common stock on a share-for-share basis, without any further action on the part of the Association or any holder. Each outstanding certificate for voting or nonvoting common stock shall evidence ownership of the same number of shares of voting stock into which it is convered. All preexisting rights and obligations with respect to any class of common stock of the Association shall be deemed to be rights and obligations with respect to such converted shares.

SEC. 441-442. * * *

GRANTS FOR WORK-STUDY PROGRAMS

SEC. 443. (a) AGREEMENTS REQUIRED.—The Secretary is authorized to enter into agreements with institutions of higher education under which the Secretary will make grants to such institutions to assist in the operation of work-study programs as provided in this part.

(b) CONTENTS OF AGREEMENTS.—An agreement entered into pursuant to this section shall—

(1) provide for the operation by the institution of a program for the part-time employment of its students in work for the institution itself or work in the public interest for a Federal, State, or local public agency or private nonprofit organization under an arrangement between the institution and such agency or organization, and such work—

(A) will not result in the displacement of employed workers or impair existing contracts for services;

(B) will be governed by such conditions of employment as will be appropriate and reasonable in light of such factors as type of work performed, geographical region, and proficiency of the employee;

(C) does not involve the construction, operation, or maintenance of so much of any facility as is used or is to be used for sectarian instruction or as a place for religious worship; and

(D) will not pay any wage to students employed under this subpart that is less than the current Federal minimum wage as mandated by section 6(a) of the Fair Labor Standards Act of 1938;

(2) provide that funds granted an institution of higher education, pursuant to seciton 443, may be used only to make pay-

ments to students participating in work-study programs, except that—

(A) an institution may use not to exceed 10 percent of the funds granted to the institution in any fiscal year to carry out the work study program described in section 447 at the increased Federal share specified in paragraph (5)(B) of this subsection, and

(B) an institution may use a portion of the sums granted to it to meet administrative expenses in accordance with section 489 of this Act, may use a portion of the sums granted to it to meet the cost of a job location and development program in accordance with section 446 of this part, and may transfer funds in accordance with the provisions of section 488 of this Act;

(3) provide that in the selection of students for employment under such work-study program, only students who demonstrate financial need in accordance with part F of this title, and who meet the requirements of section 484 will be assisted, except that, if the institution's grant under this part is directly or indirectly based in part on the financial need demonstrated by students attending the institution less than full time, a reasonable proportion of the institution's grant shall be made available to such students;

[(4) provide that for a student employed in a work-study program under this part, at the time income derived from any employment (including non-work-study or both) is in excess of the determination of the amount of such student's need by more than $200, continued employment shall not be subsidized with funds appropriated under this part;]

(4) provide that for a student employed in a work-study program under this part, at the time income derived from any need-based employment (including non-work-study or both) is in excess of the determination of the amount of such student's need by more than $200, continued employment shall not be subsidized with funds appropriated under this part;

(5) provide that the Federal share of the compensation of students employed in the work study program in accordance with the agreement will not exceed 80 percent for academic years 1987–1988 and 1988–1989, 75 percent for academic year 1989–1990, and 70 percent for academic year 1990–1991 and succeeding academic years, except that—

(A) the Federal share may exceed such amounts of such compensation if the Secretary determines, pursuant to regulations promulgated by the Secretary establishing objective criteria for such determinations, that a Federal share in excess of such amounts is required in furtherance of the purpose of this part; and

(B) the Federal share of the compensation of the students employed in the work study for community service-learning programs described in section 447 from funds available under paragraph (2)(A) in accordance with the agreement will not exceed 90 percent of such compensation;

(6) include provisions to make employment under such work-study program reasonably available (to the extent of available funds) to all eligible students in the institution in need thereof, and to make equivalent employment offered or arranged by the institution reasonably available (to the extent of available funds) to all students in the institution who desire such employment;

(7) provide assurances that employment made available from funds under this part will, to the maximum extent practicable, complement and reinforce the educational program or vocational goals of each student receiving assistance under this part;

(8) provide assurances, in the case of each proprietary institution, that students attending the proprietary institution receiving assistance under this part who are employed by the institution may be employed in jobs—

(A) on campus only;

(B) that, to the maximum extent practicable, complement and reinforce the educational programs or vocational goals of such students; and

(C) furnishing student services, as determined by the Secretary pursuant to regulations, except that no student shall be employed in any position that would involve the solicitation of other potential students to enroll in the school; and

(9) include such other reasonable provisions as the Secretary shall deem necessary or appropriate to carry out the purpose of this part.

(c) PRIVATE SECTOR EMPLOYMENT AGREEMENT.—As part of its agreement described in subsection (b), an institution of higher education may, at its option, enter into an additional agreement with the Secretary which shall—

(1) provide for the operation by the institution of a program of part-time employment of its students in work for a private for-profit organization under an arrangement between the institution and such organization that complies with the requirements of subparagraphs (A) through (D) of subsection (b)(1) and subsection (b)(3);

(2) provide that the institution will use not more than 25 percent of the funds made available to such institution under this part for any fiscal year for the operation of the program described in paragraph (1);

(3) provide that, notwithstanding subsection (b)(5), the Federal share of the compensation of students employed in such program will not exceed 60 percent for academic years 1987–1988 and 1988–1989, 55 percent for academic year 1989–1990, and 50 percent for academic year 1990–1991 and succeeding academic years, and that the non-Federal share of such compensation will be provided by the private for-profit organization in which the student is employed;

(4) provide that jobs under the work study program will be academically relevant; and

(5) provide that the for-profit organization will not use funds made available under this part to pay any employee who would otherwise be employed by the organization.

SEC. 444-463. * * *

TERMS OF LOANS

SEC. 464. (a) TERMS AND CONDITIONS.—(1) Loans from any student loan fund established pursuant to an agreement under section 463 to any student by any institution shall, subject to such conditions, limitations, and requirements as the Secretary shall prescribe by regulation, be made on such terms and conditions as the institution may determine.

(2) The aggregate of the loans for all years made by institutions of higher education from loan funds established pursuant to agreements under this part may not exceed—

(A) $18,000 in the case of any graduate or professional student (as defined by regulations of the Secretary, and including any loans from such funds made to such person before he became a graduate or professional student);

(B) $9,000 in the case of a student who has successfully completed 2 years of a program of education leading to a bachelor's degree, but who has not completed the work necessary for such a degree (determined under regulations of the Secretary, and including any loans from such funds made to such person before he became such a student); and

(C) $4,500 in the case of any other student.

(3) Regulations of the Secretary under paragraph (1) shall be designed to prevent the impairment of the capital student loan funds to the maximum extent practicable and with a view toward the objective of enabling the student to complete his course of study.

(b) DEMONSTRATION OF NEED AND ELIGIBILITY REQUIRED.—(1) A loan from a student loan fund assisted under this part may be made only to a student who demonstrates financial need in accordance with part F of this title and who meets the requirments of section 484.

(2) If the institution's Federal capital contribution under section 462 is directly or indirectly based in part on the financial need demonstrated by students attending the institution less than full time, a reasonable proportion of the loans under this part shall be made available to such students.

(c) CONTENTS OF LOAN AGREEMENT.—(1) Any agreement between an institution and a student for a loan from a student loan fund assisted under this part—

(A) shall be evidenced by note or other written instrument which, except as provided in paragraph (2), provides for repayment of the principal amount of the loans, together with interests thereon, in equal installments (or, if the borrower so requests, in graduated periodic installments determined in accordance with such schedules as may be approved by the Secretary) payable quarterly, bimonthly, or monthly, at the option of the institution, over a period beginning nine months after the date on which the student ceases to carry, at an institution of higher education or a comparable institution outside the

United States approved for this purpose by the Secretary, at least one-half the normal full-time academic workload, and ending 10 years and 9 months after such date except that such period may begin earlier than 9 months after such date upon the request of the borrower;

(B) shall include provision or acceleration of repayment of the whole, or any part, of such loan, at the option of the borrower;

(C)(i) may provide, at the option of the institution, in accordance with regulations of the Secretary, that during the repayment period of the loan, payments of principal and interest by the borrower with respect to all outstanding loans made to the student from a student loan fund assisted under this part shall be at a rate equal to not less than $30 per month, except that the institution may, subject to such regulations, permit a borrower to pay less than $30 per month for a period of not more than one year where necessary to avoid hardship to the borrower, but without extending the 10-year maximum repayment period provided for in subparagraph (A) of this praragraph; and

(ii) may provide that the total payments by a borrower for a monthly or similar payment period with respect to the aggregate of all loans held by the institution may, when the amount of a monthly or other similar payment is not a multiple of $5, be rounded to the next highest whole dollar amount that is a multiple of $5;

(D) shall provide that the loans shall bear interest, on the unpaid balance of the loan, at the rate of (i) 3 percent per year, (ii) 4 percent per year in the case of any loan made on or after July 1, 1981, or (iii) 5 percent per year in the case of any loan made on or after October 1, 1981, except that no interest shall accrue (I) prior to the beginning date of repayment determined under subparagraph (A)(i), or (II) during any period in which repayment is suspended by reason of paragraph (2);

(E) unless the borrower is a minor and the note or other evidence of obligation executed by him would not, under applicable law, create a binding obligation, shall provide that the loan shall be made without security and without endorsement;

(F) shall provide that the liability to repay the loan shall be canceled upon the death of the borrower, or if he becomes permanently and totally disabled as determined in accordance with regulations of the Secretary;

(G) shall provide that no note or evidence of obligation may be assigned by the lender, except upon the transfer of the borrower of another institution participating under this part (or, if not so participating, is eligible to do so and is approved by the Secretary for such purpose), to such institution, and except as necessary to carry out section 463(a)(6);

(H) pursuant to regulations of the Secretary, shall provide for an assessment of a charge with respect to the loan for failure of the borrower to pay all or part of an installment when due, which shall include the expenses reasonably incurred in attempting collection of the loan, to the extent permitted by the Secretary, except that no charge imposed under this sub-

paragraph shall exceed 20 percent of the amount of the monthly payment of the borrower; and

(I) shall contain a notice of the system of disclosure of information concerning default on such loan to credit bureau organizations under section 463(c).

(2)(A) No repayment of principal of, or interest on, any loan from a student loan fund assisted under this part shall be required during any period in which the borrower—

(i) is carrying at least one-half the normal full-time academic workload at an institution of higher education or at a comparable institution outside the United States which is approved for this purpose by the Secretary;

(ii) is a member of the Armed Forces of the United States, is an active duty member of the National Oceanic and Atmospheric Administration Corps, or is an officer in the Commissioned Corps of the Public Health Service;

(iii) is in service as a volunteer under the Peace Corps Act;

(iv) is in service as a volunteer under the Domestic Volunteer Act of 1973;

(v) is in service comparable to the service referred to in clauses (iii) and (iv), as a full-time volunteer for an organization which is exempt from taxation under section 501(c)(3) of the Internal Revenue Code of 1986.

(vi) is serving an internship, the succcessful completion of which is required in order to receive professional recognition required to begin professional practice or service [or serving in an internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or a health care facility that offers postgraduate training;] *or serving in a medical internship or residency program leading to a degree or certificate awarded by an institution of higher education, a hospital, or health care facility, provided that no borrower shall be eligible for a deferment under clause (i) while serving in a health professional internship or residency program.*

(vii) is temporarily totally disabled (as defined in section 435(g), as established by sworn affidavit of a qualified physician, or during which the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled;

(viii) is on parental leave, as defined in section 435(h); or

(ix) is a mother with preschool age children who is just entering or reentering the workforce and who is compensated at a rate not to exceed $1 in excess of the rate prescribed by section 6 of the Fair Labor Standard Act of 1938.

The period during which repayment may be deferred by reason of clause (ii), (iii), (iv), (v), or (vii) shall not exceed 3 years. The period during which repayment may be deferred by reason of clause (vi) shall not exceed 2 years. The period during which repayment may be deferred by reason of clause (viii) shall not exceed 6 months. The period during which the repayment may be deferred by reason of clause (ix) shall not exceed 12 months.

(B) Any period during which repayment is deferred under subparagraph (A) shall not be included in computing the 10-year maximum period provided for in subparagraph (A) of paragraph (1).

(C) No repayment of principal of, or interest on, any loan for any period of study, service, or disability described in subparagraph (A) or any combination thereof shall begin until 6 months after the completion of such period of study, service, disability, or combination thereof.

(3)(A) The Secretary is authorized, when good cause is shown, to extend, in accordance with regulations, the 10-year maximum repayment period provided for in subparagraph (A) of paragraph (1) with respect to individual loans.

(B) Pursuant to uniform criteria established by the Secretary, the repayment period for any student borrower who during the repayment period is a low-income individual may be extended for a period not to exceed 10 years and the repayment schedule may be adjusted to reflect the income of that individual.

(4) The institution may elect—

(A) to add the amount of any charge imposed under paragraph (a)(H) to the principal amount of the loan as of the first day after the day on which the installment was due and to notify the borrower of the assessment of the charge; or

(B) to make the amount of the charge payable to the institution not later than the due date of the next installment.

(d) AVAILABILITY OF LOAN FUND TO ALL ELIGIBLE STUDENTS.—An agreement under this part for payment of Federal capital contributions shall include provisions designed to make loans from the student loan fund established pursuant to such agreement reasonably available (to the extent of the available funds in such fund) to all eligible students in such institutions in need thereof.

* * * * * * *

FAMILY CONTRIBUTION FOR DEPENDENT STUDENTS

SEC. 475. (a) COMPUTATION OF EXPECTED FAMILY CONTRIBUTION.—For each dependent student the expected family contribution is equal to the sum of—

(1) the parents' contribution from adjusted available income (determined in accordance with subsection (b));

(2) the student (and spouse) contribution from available income (determined in accordance with subsection (g)); **[**and**]**

(3) the student (and spouse) income supplemental amount from assets (determined in accordance with subsection (h))**[**.**]**; *and*

(4) any veterans educational benefits paid because of enrollment in a postsecondary institution, including (but not limited to) benefits received under chapters 106 and 107 of title 10, and chapters 30, 31, 32, 34, and 35 of title 38, United States Code.

(b) PARENT'S CONTRIBUTION FROM ADJUSTED AVAILABLE INCOME.—The parents' contribution from adjusted available income is equal to the amount determined by—

(1) computing adjusted available income by adding—

(A) the parents' available income (determined in accordance with subsection (c)); and

(B) the parents' income supplemental amount from assets (determined in accordance with subsection (d));

(2) assessing such adjusted available income in accordance with the assessment schedule set forth in subsection (e); and

(3) dividing the assessment resulting under paragraph (2) by the number of family members who will be attending, on at least a half-time basis, [a program of postsecondary education] *a program of postsecondary education which meets the requirements of section 484(a)(1)* during the award period for which assistance under this title is requested;

except that the amount determined under this subsection shall not be less than zero.

(c) PARENTS' AVAILABLE INCOME.—

(1) IN GENERAL.—The parents' available income is determined by deducting from total income (as defined in section 480)—

(A) Federal income taxes;

(B) an allowance for State and other taxes, determined in accordance with paragraph (2);

(C) an allowance for social security taxes, determined in accordance with paragraph (3);

(D) a standard maintenance allowance, determined in accordance with paragraph (4);

(E) an employment expense allowance, determined in accordance with paragraph (5);

(F) a medical-dental expense allowance, determined in accordance with paragraph (6); and

(G) an educational expense allowance, determined in accordance with paragraph (7).

(2) ALLOWANCE FOR STATE AND OTHER TAXES.—The allowance for State and other taxes is equal to an amount determined by multiplying total income (as defined in section 480) by a percentage determined according to the following table (or a successor table presecribed by the Secretary under section 478):

Percentages for Computation of State and Other Tax Allowance

If parents' State or territory of residence is—	And parents' total income is—	
	less than $15,000 or	$15,000 more
	then the percentage is—	
Alaska, Puerto Rico, Wyoming	3	2
American Samoa, Guam, Louisiana, Nevada, Texas, Trust Territory, Virgin Islands	4	3
Florida, South Dakota, Tennessee, New Mexico	5	4
North Dakota, Washington	6	5
Alabama, Arizona, Arkansas, Indiana, Mississippi, Missouri, Montana, New Hampshire, Oklahoma, West Virginia	7	6
Colorado, Connecticut, Georgia, Illinois, Kansas, Kentucky	8	7
California, Delaware, Idaho, Iowa, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Utah, Vermont, Virginia, Canada, Mexico	9	8

Percentages for Computation of State and Other Tax Allowance—Continued

If parents' State or territory of residence is—	And parents' total income is—	
	less than $15,000 or	$15,000 more
Maine, New Jersey	10	9
District of Columbia, Hawaii, Maryland, Massachusetts, Oregon, Rhode Island	11	10
Michigan, Minnesota	12	11
Wisconsin	13	12
New York	14	13

(3) ALLOWANCE FOR SOCIAL SECURITY TAXES.—The allowance for social security taxes is equal to the amount earned by each parent multiplied by the social security withholding rate appropriate to the tax year of the earnings, up to the maximum statutory social security tax withholding amount for that same tax year.

(4) STANDARD MAINTENANCE ALLOWANCE.—The standard maintenance allowance is the amount of reasonable living expenses that would be associated with the maintenance of an individual or family. The standard maintenance allowance is determined by the following table (or a successor table prescribed by the Secretary under section 478):

Standard Maintenance Allowance

Family Size	Number in College					
(including student)	1	2	3	4	5	For each additional substract: [1]
2	$8,380	$6,950				
3	10,440	9,010	$7,580			
4	12,890	11,460	10,030	$8,600		
5	15,210	13,780	12,350	10,920	$8,490	
6	17,790	16,360	14,930	13,500	12,070	1,430
For each additional add:	2,010	2,010	2,010	2,010	2,010	

[1] So in original. Should be "subtract".

(5) EMPLOYMENT EXPENSE ALLOWANCE.—The employment expense allowance is determined as follows:

(A) If both parents were employed in the year for which their income is reported and both have their incomes reported in determining the expected family contribution, such allowance is equal to the lesser of $2,100 or 35 percent of the earned income of the parent with the lesser earned income.

(B) If a parent qualifies as a head of household as defined in section 2 of the Internal Revenue Code, such al-

lowance is equal to the lesser of $2,100 or 35 percent of his or her earned income.

For any award year after award year 1987–1988, this paragraph shall be applied by increasng the dollar amount specified in subparagraphs (A) and (B) to reflect increases in the amount and percent of the Bureau of Labor Standards budget of the marginal costs for meals away from home, apparel and upkeep, transportation, and housekeeping services for a two-worker versus one-worker family.

(6) MEDICAL-DENTAL EXPENSE ALLOWANCE.—The medical-dental expense allowance is equal to the amount by which the sum of unreimbursed medical and dental expenses, including medical insurance premiums, exceeds 5 percent of the total income of the parents.

(7) EDUCATIONAL EXPENSE ALLOWANCE.—The educational expense allowance is equal to the unreimbursed tuition and fees paid by the student's parents for each dependent child, other than the student, enrolled in an elementary or secondary school, not to exceed for each such child the national average per pupil instructional cost as published by the Center for Educational Statistics using the most recent available data.

(d) PARENTS' INCOME SUPPLEMENTAL AMOUNT FROM ASSETS.—

(1) IN GENERAL.—The parents' income supplemental amount from assets is equal to—

(A) the parental net worth (determined in accordance with paragraph (2)); minus

(B) the asset protection allowance (determined in accordance with paragraph (3)); multiplied by

(C) the asset conversion rate (determined in accordance with paragraph (4)).

(2) PARENTAL NET WORTH.—The parental net worth is calculated by adding—

(A) the current balance of checking and savings accounts and cash on hand;

(B) the net value of investments and real estate, including the net value of the principal place of residence [except in the case of a dislocated worker (certified in accordance with title III of the Job Training Partnership Act) or a displaced homemaker (as defined in section 480(e) of this Act]; and

(C) the adjusted net worth of a business or farm, computed on the basis of the net worth of such business or farm (hereafter in this subsection referred to as "NW"), determined in accordance with the following table (or a successor table prescribed by the Secretary under section 478):

Adjusted Net Worth of a Business or Farm

If the net worth of a business or farm is—	Then the adjusted net worth is:
Less than $1	$0
$1–$60,000	40 percent of NW
$60,001–$180,000	$24,000 plus 50 percent of NW over $60,000

Adjusted Net Worth of a Business or Farm—Continued

If the net worth of a business or farm is—	Then the adjusted net worth is:
$180,001–$300,000	$84,000 plus 60 percent of NW over $180,000
$300,001 or more	$156,000 plus 100 percent of NW over $300,000

(3) ASSET PROTECTION ALLOWANCE.—The asset protection allowance is calculated according to the following table:

Asset Protection Allowances for Families and Students

If the age of the oldest parent is—	And there are	
	two parents	one parent
	then the asset protection allowance is—	
25 or less	$0	$0
26	1,900	1,500
27	3,900	3,000
28	5,800	4,500
29	7,800	6,100
30	9,700	7,600
31	11,700	9,100
32	13,600	10,600
33	15,600	12,100
34	17,500	13,600
35	19,500	15,100
36	21,400	16,600
37	23,400	18,200
38	25,300	19,700
39	27,300	21,200
40	29,200	22,700
41	30,000	23,200
42	30,800	23,800
43	31,600	24,200
44	32,500	24,800
45	33,300	25,400
46	34,200	26,100
47	35,200	26,700
48	36,100	27,200
49	37,300	27,900
50	38,300	28,800
51	39,600	29,500
52	40,900	30,300
53	42,000	31,000
54	43,400	32,000
55	44,800	32,800
56	46,300	33,800
57	48,100	34,600
58	49,700	35,700
59	51,600	36,800
60	53,300	37,900
61	55,300	39,000
62	57,400	40,200
63	59,600	41,400
64	61,800	42,600

Asset Protection Allowances for Families and Students—Continued

If the age of the oldest parent is—	And there are	
	two parents	one parent
65 or more	64,100	44,100

(4) ASSET CONVERSION RATE.—The asset conversion rate is determined as follows:

(A) if the parental net worth (determined in accordance with paragraph (2)) minus the asset protection allowance (determined in accordance with paragraph (3)) is equal to or greater than zero, the conversion rate is 12 percent;

(B) if such parental net worth minus such asset protection allowance is less than zero and the parents' contribution from available income (determined in accordance with subsection (c)) is greater than $15,999, the conversion rate is zero percent;

(C) if such parental net worth minus such asset protection allowance is less than zero and such parents' available income is equal to or greater than zero but less than $16,000, the conversion rate (rounded to 3 decimal places) is equal to 6 percent multiplied by a fraction—

(i) the numerator of which is equal to $16,000 minus such parents' available income; and

(ii) the denominator of which is $16,000; and

(D) if such parental net worth minus such asset protection allowance is less than zero and such parents' available income is less than zero, the conversion rate is 6 percent.

(e) ASSESSMENT SCHEDULE.—The adjusted available income (as determined under subsection (b)(1) and hereafter in this subsection referred to as "AA1") is assessed according to the following table (or a successor table prescribed by the Secretary under section 479):

Parents' Assessment From Adjusted Available Income (AAI)

If AAI is—	Then the assessment is—
Less than—$3,409	−$750
—$3,409 to $7,500	22% of AAI
$7,501 to $9,400	$1,650 + 25% of AAI over $7,500
$9,401 to $11,300	$2,125 + 29% of AAI over $9,400
$11,301 to $13,200	$2,676 + 34% of AAI over $11,300
$13,201 to $15,100	$3,322 + 40% of AAI over $13,200
$15,101 to more	$4,082 + 47% of AAI over $15,100

(f) COMPUTATIONS IN CASE OF SEPARATION, DIVORCE, REMARRIAGE, OR DEATH.—

(1) DIVORCED OR SEPARATED PARENTS.—Income for a student whose parents are divorced or separated is detemined under the following procedures:

(A) include only the income of the parent with whom the student resided for the greater portion of the 12-month period preceding the date of the application.

(B) If the preceding criterion does not apply, include only the income of the parent who provided the greater portion of the student's support for the 12-month period preceding the date of application.

(C) If neither of the preceding criteria apply, include only the income of the parent who provided the greater support during the most recent calendar year for which parental support was provided.

(2) DEATH OF A PARENT.—Income in the case of the death of any parent is determined as follows:

(A) If either of the parents have died, the student shall include only the income of the surviving parent.

(B) If both parents have died, the student shall not report any parental income.

(3) REMARRIED PARENTS.—Income in the case of a parent whose income is taken into account under paragraph (1) of this subsection, or a parent who is a widow or widower and whose income is taken into account under paragraph (2) of this subsection, has remarried, is determined as follows: The income of that parent's spouse shall be included in determining the student's annual adjusted family income if—

(A) the student's parent and the stepparent are married as of the date of application for the award year concerned; and

(B) the student is not an independent student.

(g) STUDENT CONTRIBUTION FROM AVAILABLE INCOME.—

(1) IN GENERAL.—The student (and spouse) contribution from available income is equal to the greater of—

(A) a mandatory self-help amount of $700 for a first-year undegraduate student;

(B) a mandatory self-help amount of $900 for any other student; or

(C) an amount equal to [70 percent] *not less than 50 percent* of the student's total income (determined in accordance with section 480) minus the adjustment to student (and spouse) income (determined in accordance with paragraph (2)).

(2) ADJUSTMENT TO STUDENT (AND SPOUSE) INCOME.—The adjustment to student (and spouse) income is equal to the sum of—

(A) estimated Federal income taxes of the student (and spouse);

(B) an allowance for State and local income taxes (determined in accordance with paragraph (3)); and

(C) an allowance for social security taxes determined in accordance with paragraph (4).

(3) ALLOWANCE FOR STATE AND LOCAL INCOME TAXES.—The allowance for State and local income taxes is equal to an amount determined by multiplying total taxable income (as defined in section 480) by a percentage determined according to the following table (or a successor table prescribed by the Secretary under section 478):

Percentages for Computation of State and Local Income Tax Allowance

If the students' State or territory of residence is—	The percentage is—
Alaska, American Samoa, Florida, Guam, Nevada, South Dakota, Tennessee, Texas, Trust Territory, Virgin Islands, Washington, Wyoming	0
Connecticut, Louisiana, Puerto Rico	1
Arizona, New Hampshire, New Mexico, North Dakota	2
Alabama, Colorado, Illinois, Indiana, Kansas, Mississippi, Missouri, Montana, Nebraska, New Jersey, Oklahoma	3
Arkansas, Georgia, Iowa, Kentucky, Maine, Pennsylvania, Utah, Vermont, Virginia, West Virginia, Canada, Mexico	4
California, Idaho, Massachusetts, North Carolina, Ohio, Rhode Island, South Carolina	5
Hawaii, Maryland, Michigan, Wisconsin	6
Delaware, District of Columbia, Minnesota, Oregon	7
New York	8

(4) ALLOWANCE FOR SOCIAL SECURITY TAXES.—The allowance for social security taxes is equal to the amount earned by the student (and spouse) multiplied by the social security withholding rate appropriate to the tax year of the earnings, up to the maximum statutory social security tax withholding amount for that same tax year.

(h) STUDENT (AND SPOUSE) INCOME SUPLLEMENTAL AMOUNT FROM ASSETS.—The student (and spouse) supplemental income from assets is determined by calculating the net assets of the student (and spouse) and multiplying the amount by 35 percent[, except that in the case of a student who is a dislocated worker (certified in accordance with title III of the Job Training Partnership Act) or a displaced homemaker (as defined in section 480(e) of thsi Act), the net value of a principal place of residence shall be considered to be zero].

(i) ADJUSTMENTS FOR ENROLLMENT PERIODS OTHER THAN 9 MONTHS.—For periods of enrollment other than nine months, the parents' contribution from adjusted available income is determined as follows:

(1) For periods of enrollment less than 9 months, the parents' contribution from adjusted available income (determined in accordance with subsection (b)) is divided by 9 and the result multiplied by the number of months enrolled.

(2) For periods of enrollment greater than 9 months—

(A) the parents' adjusted available income (determined in accordance with subsection (b)(1)) is increased by the difference between the standard maintenance allowance (determined in accordance with subsection (c)(4)) for a family of four and a family of five, each with one child in college;

(B) the resulting revised parents' adjusted available income is assessed according to subsection (e) and adjusted according to subsection (b)(3) to determine a revised parents' contribution from adjusted available income;

(C) the original parents' contribution from adjusted available income is subtracted from the revised parents' contribution from adjusted available income, and the result is divided by 12 to determine the monthly adjustment amount; and

(D) the original parents' contribution from adjusted available income is increased by the product of the monthly adjustment amount multiplied by the number of months greater than 9 for which the student will be enrolled.

FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITHOUT DEPENDENTS

SEC. 476. (a) COMPUTATION OF EXPECTED FAMILY CONTRIBUTION.—For each independent student without dependents (including a spouse), the expected family contribution is equal to the sum of—

(1) the student's contribution from income (determined in accordance with subsection (b)); and

(2) the student's income supplemental amount from assets (determined in accordance with subsection (c)).

(b) STUDENT'S CONTRIBUTION FROM INCOME.—

(1) IN GENERAL.—The student's contribution from income is determined by—

(A) adding the student's adjusted gross income and any income earned from work but not reported on a Federal income tax return, and subtracting excludable income (as defined in section 480);

(B) computing the student's available taxable income by deducting from the amount determined under subparagraph (A)—

(i) Federal income taxes;

(ii) an allowance for State and local income taxes, determined in accordance with paragraph (2);

(iii) the allowance for social security taxes, determined in accordance with paragraph (3); and

(iv) a maintenance allowance for periods of non-enrollment not to exceed $600 per month;

(C) assessing such available taxable income in accordance with paragraph (4); [and]

(D) adding to the assessment resulting under subparagraph (C) the amount of the untaxed income and benefits of the student [determined in accordance with section 480(c) plus the amount of veterans' benefits paid during the award period under chapters 32, 34, and 35 of title 28, United States Code,] *and any veterans educational benefits paid because of enrollment in a postsecondary institution, including (but not limited to) benefits received under chapters 106 and 107 of title 10, and chapters 30, 31, 32, 34, and 35 of title 38, United States Code; or*

(E) using an amount equal to the sum of the student income anticipated to be earned during the period June 1 of the first calendar year of the award year through May 31 of the second year of the award year, assessed in accordance with paragraph (4), and the amount of the untaxed income

and benefits of the student (determined in accordance with section 480(c)).

For the purpose of determining the appropriate income contribution under subparagraphs (C) and (D) of this paragraph, the following rule shall apply:

(i) If anticipated income determined under subparagraph (D) is greater than 60 percent of the income determined under subparagraph (C), the income determined under subparagraph (C) shall be used.

(ii) If 60 percent of the income determined under subparagraph (C) is greater than or equal to the anticipated income determined under subparagraph (D), the income determined under subparagraph (D) shall be used.

except that the student contribution from income shall not be less than $1,200.

(2) ALLOWANCE FOR STATE AND LOCAL INCOME TAXES.—The allowance for State and local income taxes is equal to an amount determined by multiplying total taxable income (as defined in section 480) by a percentage determined according to the following table (or a successor table prescribed by the Secretary under section 478):

Percentages for Computation of State and Local Income Tax Allowance

If the students' State or territory of residence is—	The percentage is—
Alaska, American Samoa, Florida, Guam, Nevada, South Dakota, Tennessee, Texas, Trust Territory, Virgin Islands, Washington, Wyoming	0
Connecticut, Louisiana, Puerto Rico	1
Arizona, New Hampshire, New Mexico, North Dakota	2
Alabama, Colorado, Illinois, Indiana, Kansas, Mississippi, Missouri, Montana, Nebraska, New Jersey, Oklahoma	3
Arkansas, Georgia, Iowa, Kentucky, Maine, Pennsylvania, Utah, Vermont, Virginia, West Virginia, Canada, Mexico	4
California, Idaho, Massachusetts, North Carolina, Ohio, Rhode Island, South Carolina	5
Hawaii, Maryland, Michigan, Wisconsin	6
Delaware, District of Columbia, Minnesota, Oregon	7
New York	8

(3) ALLOWANCE FOR SOCIAL SECURITY TAXES.—The allowance for social security taxes is equal to the amount earned by the student multiplied by the social security withholding rate appropriate to the tax year of the earnings, up to the maximum statutory social security tax withholding amount for that same tax year.

(4) ASSESSMENT OF AVAILABLE TAXABLE INCOME.—The student's available taxable income (determined in accordance with paragraph (1)(A) of this subsection) is assessed as follows:

(A) if such available taxable income is equal to or greater than $0 but less than or equal to $8,600, then the assessment is equal to 70 percent of such available taxable income; and

(B) if such available taxable income is greater than $8,600, then the assessment is equal to $6,020 plus 90 percent of such available taxable income in excess of $8,600.

(c) STUDENT'S INCOME SUPPLEMENTAL AMOUNT FROM ASSETS.—

(1) IN GENERAL.—The student's income supplemental amount from assets is equal to—

(A) the student's net worth (determined in accordance with paragraph (2)); minus

(B) the asset protection allowance (determined in accordance with paragraph (3)); multiplied by

(C) the asset conversion rate (determined in accordance with paragraph (4));

except that the student's income supplemental amount from assets shall not be less than zero.

(2) STUDENT'S NET WORTH.—The student's net worth is calculated by adding—

(A) the current balance of checking and savings accounts and cash on hand;

(B) the net value of investments and real estate, including the net value in the principal place of residence [except in the case of a displaced worker (certified in accordance with title III of the Job Training Partnership Act) or a displaced homemaker (as defined in section 480(e) of this Act]; and

(C) the adjusted net worth of a business or farm, computed on the basis of the net worth of such business or farm (hereafter referred to as "NW"), determined in accordance with the following table (or a successor table prescribed by the Secretary under section 478):

Adjusted New Worth of a Business or Farm

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than $1	$0
$1-$60,000	40 percent of NW
$60,001-$180,000	$24,000 plus 50 percent of NW over $60,000
$180,001-$300,000	$84,000 plus 60 percent of NW over $180,000
$300,001 or more	$156,000 plus 100 percent of NW over $300,000

(3) ASSET PROTECTION ALLOWANCE.—The asset protection allowance is calculated according to the following table:

Asset Protection Allowance for Students

If the age of the student is—	Then the asset protection allowance is—
25 or less	$0
26	1,500
27	3,000
28	4,500

Asset Protection Allowance for Students—Continued

If the age of the student is—	Then the asset protection allowance is—
29	6,100
30	7,600
31	9,100
32	10,600
33	12,100

FAMILY CONTRIBUTION FOR INDEPENDENT STUDENTS WITH DEPENDENTS

SEC. 477. (a) COMPUTATION OF EXPECTED FAMILY CONTRIBUTION.—For each independent student with dependents (including a spouse) the expected family contribution is equal to the amount determined by—

(1) computing adjusted available income by adding—

(A) the family's available income (determined in accordance with subsection (b)); *and*

(B) the family's income supplemental amount from assets (determined in accordance with subsection (c)); [and]

[(C) the amount of veterans' benefits to be paid during the award period under chapters 32, 34, and 35 of title 38, United States Code;]

(2) assessing such adjusted available income in accordance with an assessment schedule set forth in subsection (d); [and]

(3) dividing the assessment resulting under paragraph (2) by the number of family members who will be attending, on at least a half-time basis, [a program of postsecondary education] *a program of postsecondary education which meet the requirements of section 484(a)(1)* during the award period for which assistance under this title is requested; *and*

(4) adding any veterans educational benefits paid because of enrollment in a postsecondary institution, including (but not limited to) benefits received under chapters 106 and 107 of title 10, and chapters 30, 31, 32, 34, and 35 of title 38, United States Code;

except that the amount determined under this subsection shall not be less than zero;

(b) FAMILY'S AVAILABLE INCOME.—

(1) IN GENERAL.—The family's available income is determined by deducting from total income (as defined in section 480)—

(A) Federal income taxes;

(B) an allowance for State and other taxes, determined in accordance with paragraph (2);

(C) an allowance for social security taxes, determined in accordance with paragraph (3);

(D) a standard maintenance allowance, determined in accordance with paragraph (4);

(E) an employment expense allowance, determined in accordance with paragraph (5);

(F) a medical-dental expense allowance, determined in accordance with paragraph (6); and

(G) an educational expense offset, determined in accordance with paragraph (7);

except that the family's available income shall not be less than $700 for a first year undergraduate student or $900 for any other student.

(2) ALLOWANCE FOR STATE AND OTHER TAXES.—The allowance for State and other taxes is equal to an amount determined by multiplying total income (as defined in section 480) by a percentage determined according to the following table (or a successor table prescribed by the Secretary under section 478):

Percentages for Computation of State and Other Tax Allowance

If student's State or territory of residence is—	And student's total income is—	
	less than $15,000	$15,000 or more
	then the percentage is—	
Alaska, Puerto Rico, Wyoming	3	2
American Samoa, Guam, Louisiana, Nevada, Texas, Trust Territory, Virgin Islands	4	3
Florida, South Dakota, Tennessee, New Mexico	5	4
North Dakota, Washington	6	5
Alabama, Arizona, Arkansas, Indiana, Mississippi, Missouri, Montana, New Hampshire, Oklahoma, West Virginia	7	6
Colorado, Connecticut, Georgia, Illinois, Kansas, Kentucky	8	7
California, Delaware, Idaho, Iowa, Nebraska, North Carolina, Ohio, Pennsylvania, South Carolina, Utah, Vermont, Virginia, Canada, Mexico	9	8
Maine, New Jersey	10	9
District of Columbia, Hawaii, Maryland, Massachusetts, Oregon, Rhode Island	11	10
Michigan, Minnesota	12	11
Wisconsin	13	12
New York	14	13

(3) ALLOWANCE FOR SOCIAL SECURITY TAXES.—The allowance for social security taxes is equal to the amount earned by the student and the student's spouse multiplied by the social security withholding rate appropriate to the tax year of the earnings, up to the maximum statutory social security tax withholding amount for that same tax year.

(4) STANDARD MAINTENANCE ALLOWANCE.—The standard maintenance allowance is the amount of reasonable living expenses that would be associated with the maintenance of an individual or family. The standard maintenance allowance is determined by the following table (or a successor table prescribed by the Secretary under section 479):

Family size	Number in college					
(including student)	1	2	3	4	5	For each additional subtract:
2	$8,380	$6,950				
3	10,440	9,010	$7,580			
4	12,890	11,460	10,030	$8,600		
5	15,210	13,780	12,350	10,920	$8,490	
6	17,790	16,360	14,930	13,500	12,070	1,430
For each additional add	2,010	2,010	2,010	2,010	2,010	

(5) EMPLOYMENT EXPENSE ALLOWANCE.—The employment expense allowance is determined as follows:

(A) If both the student and a spouse were employed in the year for which their income is reported and both have their incomes reported in determining the expected family contribution, such allowance is equal to the lesser of $2,100 or 35 percent of the earned income of the student or spouse with the lesser earned income.

(B) If a student qualifies as a head of household as defined in section 2 of the Internal Revenue Code, such allowance is equal to the lesser of $2,100 or 35 percent of his or her earned income.

For any award year after award year 1987–1988, this paragraph shall be applied by increasing the dollar amount specified in subparagraphs (A) and (B) to reflect increases in the amount and percent of the Bureau of Labor Standards budget of the marginal costs for meals away from home, apparel and upkeep, transportation, and housekeeping services for a two-worker versus one-worker family.

(6) MEDICAL-DENTAL EXPENSE ALLOWANCE.—The medical-dental expense allowance is equal to the amount by which the sum of unreimbursed medical and dental expenses, including medical insurance premiums, exceeds 5 percent of the total income of the family.

(7) EDUCATIONAL EXPENSE ALLOWANCE.—The educational expense allowance is equal to the unreimbursed tuition and fees paid by the student or the student's spouse, or both, for each dependent child, enrolled in elementary or secondary school, not to exceed for each such child the national average per pupil instructional cost as published by the Center for Educational Statistics using the most recent available data.

(c) FAMILY'S INCOME SUPPLEMENTAL AMOUNT FROM ASSETS.—

(1) IN GENERAL.—The family's income supplemental amount from assets is equal to—

(A) the family net worth (determined in accordance with paragraph (2)); minus

(B) the asset protection allowance (determined in accordance with paragraph (3)); multiplied by

(C) the asset conversion rate (determined in accordance with paragraph (4)).

(2) FAMILY NET WORTH.—The family net worth is calculated by adding—

(A) the current balance of checking and savings accounts and cash on hand;

(B) the net value of investments and real estate, including the net value in the principal place of residence [except in the case of a dislocated worker (certified in accordance with title III of the Job Training Partnership Act) or a displaced homemaker (as defined in section 480(e) of this Act]], and

(C) the adjusted net worth of a business or farm, computed on the basis of the net worth of such business or farm (hereafter referred to as "NW"), determined in accordance with the following table (or a successor table prescribed by the Secretary under section 478):

Adjusted Net Worth of a Business or Farm

If the net worth of a business or farm is—	Then the adjusted net worth is—
Less than $1	$0
$1–$60,000	$40 percent of NW
$60,001–$180,000	$24,000 plus 50 percent of NW over $60,000
$180,001–$300,000	$84,000 plus 60 percent of NW over $180,000
$300,001 or more	$156,000 plus 100 percent of NW over $300,000

(3) ASSET PROTECTION ALLOWANCE.—The asset protection allowance is calculated according to the following table:

Asset Protection Allowances for Families and Students

If the age of the student is—	And there are	
	two spouses	one spouse
	then the asset protection allowance is—	
25 or less	$0	$0
26	1,900	1,500
27	3,900	3,000
28	5,800	4,500
29	7,800	6,100
30	9,700	7,600
31	11,700	9,100
32	13,600	10,600
33	15,600	12,100
34	17,500	13,600
35	19,500	15,100
36	21,400	16,600
37	23,400	18,200
38	25,300	19,700
39	27,300	21,200
40	29,200	22,700
41	30,000	23,200
42	30,800	23,800

Asset Protection Allowances for Families and Students—Continued

If the age of the student is—	And there are	
	two spouses	one spouse
43	31,600	24,200
44	32,500	24,800
45	33,300	25,400
46	34,200	26,100
47	35,200	26,700
48	36,100	27,200
49	37,300	27,900
50	38,300	28,800
51	39,600	29,500
52	40,900	30,300
53	42,000	31,000
54	43,400	32,000
55	44,800	32,800
56	46,300	33,800
57	48,100	34,600
58	49,700	35,700
59	51,600	36,800
60	53,300	37,900
61	55,300	39,000
62	57,400	40,200
63	59,600	41,400
64	61,800	42,600
65 or more	64,100	44,100

(4) ASSET CONVERSION RATE.—The asset conversion rate is determined as follows:

(A) if the family's net worth (determined in accordance with paragraph (2)) minus the asset protection allowance (determined in accordance with paragraph (3)) is equal to or greater than zero, the conversion rate is 12 percent;

(B) if such family's net worth minus such asset protection allowance is less than zero and the family's available income (determined in accordance with subsection (c)) is greater than $15,999, the conversion rate is zero percent;

(C) if such family's net worth minus such asset protection allowance is less than zero and such family's available income is equal to or greater than zero but less than $16,000, the conversion rate is equal to 6 percent multiplied by a fraction—

(i) the numerator of which is equal to $16,000 minus such family's available income; and

(ii) the denominator of which is $16,000; and

(D) if such family's net worth minus such asset protection allowance is less than zero and such family's available income is less than zero, the conversion rate is 6 percent.

(d) ASSESSMENT SCHEDULE.—The adjusted available income (as determined under subsection (a)(1) and hereafter referred to as "AAI") is assessed according to the following table (or a successor table prescribed by the Secretary under section 478):

Assessment From Adjusted Available Income (AAI)

If AAI is—	Then the assessment is—
Less than −$3,409	−$750
−$3,409 to $7,500	22% of AAI
$7,501 to $9,400	$1,650 + 25% of AAI over $7,500
$9,401 to $11,300	$2,125 + 29% of AAI over $9,400
$11,301 to $13,200	$2,676 + 34% of AAI over $11,300
$13,201 to $15,100	$3,322 + 40% of AAI over $13,200
$15,101 or more	$4,082 + 47% of AAI over $15,100

DISCRETION OF STUDENT FINANCIAL AID ADMINISTRATORS

[SEC. 479A. (a) IN GENERAL.—Nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator, on the basis of adequate documentation, to make necessary adjustments to the cost of attendance and expected student or parent contribution (or both) to allow for treatment of individual students with special circumstances. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator to use supplementary information about the financial status or personal circumstance of eligible applicants in selecting recipients and determining the amount of awards under subparts 1 and 2 of part A and parts B, C, and E of this title.]

"SEC. 479A. (a) IN GENERAL.—Nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator, on the basis of adequate documentation, to make necessary adjustments to the cost of attendance and expected student or parent contribution (or both) to allow for treatment of individual students with special circumstances. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator to use supplementary information about the financial status or personal circumstance of eligible applicants in selecting recipients and determining the amount of awards under subparts 1 and 2 of part A and parts B, C, and E of this title.

(b) ADJUSTMENTS TO ASSETS TAKEN INTO ACCOUNT.—A student financial aid administrator shall be considered to be making a necessary adjustment in accordance with subsection (a) if—

(1) the administrator determines, in his or her discretion, that the effective family income of the applicant is small in relation to—

(A) the net value of the principal place of residence;

(B) the net worth of a farm on which the family resides; or

(C) the net worth of a family owned and operated small business;

(2) such administrator reduces or eliminates the amount of such net value or net worth that is subject to assessment in the computation of the expected family contribution of that applicant; and

(3) the administrator reports the amount of such adjustments made with respect to determinations for Pell Grants to the

contractor or contractors processing applications for such grants for the award year.

(c) SPECIAL ADJUSTMENTS.—

(1) ADJUSTMENTS FOR INDEPENDENT STUDENTS WITH DEPENDENTS.—A student financial aid administrator shall be considered to be making a necessary adjustment in accordance with subsection (a) if the administrator determines that the cost of attendance in section 472 should include costs of food and shelter for dependent care when the total income for independent students with dependents is less than the Standard Maintenance Allowance under section 477(b)(4).

(2) ADJUSTMENT FOR DISLOCATED WORKER.—A student financial aid administrator shall be considered to be making a necessary adjustment in accordance with subsection (a) if, in the case of dislocated workers—

(A) the administrator uses the income for the year in which the determination is made (the award year) rather than the income reported in the preceding tax year; and

(B) the administrator excludes the net value of investments and real estate, including the primary residence in the calculation of the family contribution for the Pell Grant Program and the expected family contribution under part F.

(3) ADJUSTMENT FOR DISPLACED HOMEMARKER.—A student financial aid administrator shall be considered to be making a necessary adjustment in accordance with subsection (a) if, for displaced homemakers, the administrator excludes the net value of investments and real estate, including the primary residence, from the calculation of the Pell Grant family contribution and from the expected family contribution under part F.

[(c)**]** *(d)* ASSET ADJUSTMENT AS EXAMPLE.—The asset adjustment described in **[**subsection (b) is an example**]** *subsections (b) and (c) are examples* of the type of adjustment which financial aid administrators are authorized to make by subsection (a), and shall not be considered to be the only adjustment that is so authorized.

DEFINITIONS

SEC. 480. As used in this part:

(a) TOTAL INCOME.—(1) Except as provided in paragraphs (2) through (4), the term "total income" is equal to adjusted gross income plus untaxed income and benefits for the preceding tax year minus excludable income (as defined in subsection (f)).

(2) In the computation of family contributions for the programs under subpart 2 of part A and parts B, C, and E of this title for any academic year, there shall be excluded from family income any proceeds of a sale of farm or business assets of that family if such sale results from a voluntary liquidation.

(3) Income in the case of a dislocated worker shall be the income for the year for which the determination is made. For the purpose of this subparagraph, a dislocated worker is a worker identified pursuant to title III of the Job Training Partnership Act.

(4) No portion of any student financial assistance received from any program by an individual shall be included as income in the

computation of expected family contribution for any program funded in whole or in part under this Act.

(b) UNTAXED INCOME AND BENEFITS OF PARENTS AND INDEPENDENT STUDENTS WITH DEPENDENTS.—The term "untaxed income and benefits" when applied to parent contributions or the contributions of independent students with dependents (including spouses) means—

(1) child support received;

(2) welfare benefits, including aid to families with dependent children under a State plan approved under part A of title IV of the Social Security Act and aid to dependent children;

(3) workman's compensation;

(4) veterans' benefits such as death pension, dependency and indemnity compensation, but excluding veterans' education benefits;

(5) interest on tax-free bonds;

(6) housing, food, and other allowances (excluding rent subsidies for low-income housing) for military, clergy, and others (including cash payments and cash value of benefits);

(7) cash support or any money paid on the students behalf;

(8) the amount of earned income credit claimed for Federal income tax purposes;

(9) untaxed portion of pensions;

(10) credit for Federal tax on special fuels;

(11) the amount of foreign income excluded for purposes of Federal income taxes;

(12) untaxed social security benefits;

(13) payments to individual retirement accounts and Keogh accounts excluded from income for Federal income tax purposes; and

(14) any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, railroad retirement benefits, or Job Training Partnership Act noneducational benefits.

(c) UNTAXED INCOME AND BENEFITS OF DEPENDENT STUDENTS OR INDEPENDENT STUDENTS WITHOUT DEPENDENTS.—For the purpose of this part, the term "untaxed income and benefits" when applied to the contributions of dependent students or independent students without dependents means—

(1) child support received;

(2) welfare benefits, including aid to families with dependent children under a State plan approved under part A of title IV of the Social Security Act and aid to dependent children;

(3) workman's compensation;

(4) veterans' benefits such as death pension, dependency and indemnity compensation, but excluding veterans' education benefits;

(5) interest on tax-free bonds;

(6) housing, food, and other allowances (excluding rent subsidies for low-income housing) for military, clergy, and others (including cash payments and cash value of benefits);

(7) cash support or any money paid on the student's behalf;

(8) the amount of earned income credit claimed for Federal income tax purposes;

(9) untaxed portion of pensions;

(10) credit for Federal tax on special fuels;

(11) the amount of foreign income excluded for purposes of Federal income taxes;

(12) untaxed social security benefits;

(13) payments to individual retirement accounts and Keogh accounts excluded from income for Federal income tax purposes; and

(14) any other untaxed income and benefits, such as Black Lung Benefits, Refugee Assistance, railroad retirement benefits, or Job Training Partnership Act noneducational benefits.

[(d) INDEPENDENT STUDENT.—(1) The term "independent", when used with respect to a student, means any indidual who—

[(A) is 24 years of age or older by December 31 of the award year; or

[(B) meets the requirements of paragraph (2).

[(2) Except as provided in paragraph (3), an individual meets the requirements of this paragraph is such individual—

[(A) is an orphan or ward of the court;

[(B) is a veteran of the Armed Forces of the United States;

[(C) is a graduate or professional student who declares that he or she will not be claimed as a dependent for income tax purposes by his or her parents (or guardian) for the first calendar year of the award year;

[(D) is a married individual who declares that he or she will not be claimed as a dependent for income tax purposes by his or her parents (or guardian) for the first calendar year of the award year;

[(E) has a legal dependents other than a spouse;

[(F) is a single undergraduate student with no dependents who was not claimed as a dependent by his or her parents (or guardian) for income tax purposes for the 2 calendar years preceding the award year and demonstrates to the student financial aid administrator total self-sufficiency during the 2 calendar years preceding the award year in which the initial award will be granted by demonstrating annual total resources (including all sources of resources other than parents) of $4,000; or

[(G) is a student for whom a financial aid administrator makes a documented determination of independence by reason of other unsual circumstances.

[(3) An individual may not be treated as an independent student pursuant to subparagraphs (C), (D), and (F) of paragraph (2) if the financial aid administrator determines that such individual was treated as an independent student during the preceding award year, but was claimed as a dependent by any other individual (other than a spouse) for income tax purposes for the first calendar year of such award year.

[(4) The financial aid administrator may certify an individual described in subparagraph (C), (D), or (F) of paragraph (2) on the basis of a demonstration made by the individual, but no disbursal of an award may be made without documentation.]

(d) INDEPENDENT STUDENT.—The term "independent," when used with respect to a student, means any individual who—

(1) is 24 years of age or older by December 31 of the first calendar year of the award year;

(2) is an orphan or is or has been a ward of the court;

(3) is a veteran of the Armed Forces of the United States;

(4) is a graduate or professional student and will not be claimed by his or her parents (or guardian) for income tax purposes for the award year;

(5) is married or has legal dependents;

(6) is an undergraduate student who was not claimed by his or her parents (or guardian) for income tax purposes for the 2 calendar years preceding the first calendar year of the award year, and who either was awarded assistance under this title as an independent student in the prior year, or demonstrates to the student financial aid administrator total self-sufficiency during the first calendar year of the award year by demonstrating annual total resources (including all sources other than parents and students aid) of $4,000; or

(7) is a student for whom a financial aid administrator makes a documented determination of independence by reason of other unusual circumstances.

(e) DISPLACED HOMEMAKER.—The term "displaced homemaker" means an individual who—

(1) has not worked in the labor force for a substantial number of years but has, during those years, worked in the home providing unpaid services for family members;

(2)(A) has been dependent on public assistance or on the income of another family member but is no longer supported by that income, or (B) is receiving public assistance on account of dependent children in the home; and

(3) is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.

(f) EXCLUDABLE INCOME.—The term "excludable income" means—

(1) any unemployment compensation received by a dislocated worker certified in accordance with title III of the Job Training Partnership Act; and

(2) any student financial assistance awarded base on need as determined in accordance with the provisions of this part including any income earned from work under part C of this title.

(g) ASSETS.—*(1)* The term "assets" means cash on hand, including the amount in checking and savings accounts, time deposits, money market funds, trusts, stocks, bonds, other securities, mutual funds, tax shelters, and the net value of real estate, income producing property, and business and farm assets. *No cash on hand or other property (or interest therein) of a dependent shall be treated as an asset of the student (or spouse) for purposes of section 475(h) except to the extent that such cash or property exceeds the amount the student is required to contribute from available income under section 475(g).*

(2) For academic year 1990–1991 and succeeding academic years, the term "assets" shall not include, in the case of a family with an adjusted gross income which is equal to or less than $30,000, the net value of—

(A) the family's principal place of residence;

(B) a family farm (as that term is defined in regulations prescribed by the Secretary of Agriculture pursuant to the Consolidated Farm and Rural Development Act) on which the family resides; or

(C) a small business (as that term is defined in regulations prescribed by the Administrator of the Small Business Administration pursuant to Small Business Act) substantially owned and managed by a member or members of the family.

The Secretary shall, by regulation, provide criteria for determining whether a small business is substantially owned and managed by a member or members of the family.

(h) NET ASSETS.—The term "net assets" means the current market value at the time of application of the assets included in the definition of "assets", minus the outstanding liabilities or indebtedness against the assets.

(i) TREATMENT OF INCOME TAXES PAID TO OTHER JURISDICTIONS.—(1) The tax on income paid to the Governments of the Commonwealth of Puerto Rico, Guam, American Samoa, the Virgin Islands, or the Northern Mariana Islands, or the Trust Territory of the Pacific Islands under the laws applicable to those jurisdictions, or the comparable tax paid to the central government of a foreign country, shall be treated as Federal income taxes.

(2) References in this part of the Internal Revenue Code of 1986, Federal income tax forms, and the Internal Revenue Service shall, for purposes of the tax described in paragraph (1), be treated as references to the corresponding laws, tax forms, and tax collection agencies of those jurisdictions, respectively, subject to such adjustments as the Secretary may prescribe by regulation.

SEC. 481. (a) INSTITUTION OF HIGHER EDUCATION.—(1) [For the purpose] *Subject to subsection (e), for the purpose* of this title, except subpart 6 of part A and part B, the term "insitution of higher education" includes, in addition to the institutions covered by the definition contained in section 1201(a)—

(A) a proprietary institution of higher education;

(B) a postsecondary vocational institution;

(C) a department, division, or other administrative unit in a college or university which provides primarily or exclusively an accredited program of education in professional nursing and allied subjects leading to the degree of bachelor of nursing, or to an equivalent degree, or to a graduate degree in nursing; and

(D) a department, division, or other administrative unit in a junior college, community college, college, or university which provides primarily or exclusively an accredited 2-year program of education in professional nursing and allied subjects leading to an associate degree in nursing or to an equivalent degree.

(2) The term "accredited" when applied to any program of nurse education means a program accredited by a recognized body or bodies approved for such purpose by the Secretary.

(3) Whenever the Secretary determines accreditation for the purpose of paragraph (1), the Secretary shall not approve the accreditation of any eligible institution of higher education under this section if the eligible institution of higher education is in the process of receiving new institutional accreditation by a national or region-

al accreditation agency unless the eligible institution submits to the Secretary all materials relating to the prior accreditation, including the reasons, if applicable, for changing the accrediting agency or association.

(b) PROPRIETARY INSTITUTION OF HIGHER EDUCATION.—For the purpose of this section, the term "proprietary institution of higher education" means a school (1) which provides not less than a 6-month program of training to prepare students for gainful employment in a recognized occupation, (2) which meets the requirements of clauses (1) and (2) of section 1201(a), (3) which does not meet the requirement of clause (4) of section 1201(a), (4) which is accredited by a nationally recognized accrediting agency or association approved by the Secretary for this purpose, and (5) which has been in existence for at least 2 years. Such term also includes a proprietary educational institution in any State which, in lieu of the requirement in clause (1) of section 1201(a), admits as regular students persons who are beyond the age of compulsory school attendance in the State in which the institution is located and who have the ability to benefit (as determined by the institution under section 484(d)) from the training offered by the institution. For the purpose of this subsection, the Secretary shall publish a list of nationally recognized accrediting agencies or associations which he determines to be reliable authority as to the quality of training offered. The Secretary shall not promulgate regulations defining the admissions procedures or remediation programs that must be used by an institution in admitting students on the basis of their ability to benefit from the training offered and shall not, as a condition of recognition under section 413(e) of this Act, impose upon any accrediting body or bodies standards which are different or more restrictive than the standards provided in this subsection.

(c) PROSECONDARY VOCATIONAL INSTITUTION.—For the purpose of this section, the term "postsecondary vocational institution" means a school (1) which provides not less than a 6-month program of training to prepare students for gainful employment in a recognized occupation, (2) which meets the requirements of clauses (1), (2), (4), and (5) of section 1201(a), (3) which has been in existence for at least 2 years. Such term also includes an educational institution in any State which, in lieu of the requirement in clause (1) of section 1201(a), admits as regular students persons who are beyond the age of compulsory school attendance in the State in which the institution is located and who have the ability to benefit (as determined by the institution under section 484(d)) from the training offered by the institution.

(d) ACADEMIC YEAR.—For the purpose of any program under this title, the term "academic year" shall be defined by the Secretary by regulation.

(e) IMPACT OF LOSS OF ACCREDITATION.—An institution may not be certified or recertified as an eligible institution under subsection (a) of this section if such institution—

(1) had its institutional accreditation withdrawn, revoked, or otherwise terminated for cause during the preceding 24 months; or

(2) has withdrawn from institutional accreditation voluntarily under the show cause order or suspension order during the preceding 24 months;

unless—

(A) such accreditation has been restored by the same accrediting agency which had accredited it prior to the withdrawal, revocation, or termination; or

(B) the institution has demonstrated its academic integrity to the satisfaction of the Secretary in accordance with section 1201(a)(5) (A) or (B) of this Act.

FORMS AND REGULATIONS

SEC. 483. (a) COMMON FINANCIAL AID FORM AND PROCESSING.—(1) The Secretary, in cooperation with representatives of agencies and organizations involved in student financial assistance, shall prescribe a common financial reporting form to be used to determine the need and eligibility of a student for financial assistance under parts A, C, and E of this title (other than under subpart 3 of part A) and to determine the need of a student for the purpose of part B of this title. *The common form shall contain the minimum data elements the Secretary determines is necessary to determine the financial need of students. Other data may be collected and used by approved processors in other parts of the form developed by such processors.* For the purpose of collecting eligibility and other data for the purpose of part B, guaranty agencies, in cooperation with the Secretary, shall develop separate, identifiable loan application documents that applicants or institutions in which the students are enrolled or accepted for enrollment shall submit directly to eligible lenders and on which the applicant shall clearly indicate a choice of lender. No student or parent of a student shall be charged a fee for processing the form prescribed by the Secretary whether the student completes that form or any other approved form. A student or parent may be charged a fee for processing an institutional or a State financial aid form or data elements that is[1] not required by the Secretary.

(2)*(A)* The Secretary shall, to the extent practicable, enter into not less than 5 contracts with States, institutions of higher education, or private organizations for the purpose of processing the application required under this subsection and issuing eligibility reports. [The Secretary shall not select new multiple data entry processors after the date of enactment of Higher Education Amendments Act of 1986, until the Advisory Commssion on Student Financial Assistance has examined and made recommendations on the expansion of the number and kind of processors and its impact on students has assessed and made recommendations on the relative cost of processing applications and development fees, and has examined and made recommendations on the implementation of a standardized fee for the reimbursement of all processors by the Federal Government.] *The Secretary shall select such qualified processors pursuant to competitive bidding processes.*

(B) In establishing the minimum participation criteria for the competitive bidding process the Secretary shall establish participation requirements that are fair and equitable and that foster compe-

tition in bidding in order to obtain maximum savings for students and for the Department. Such participation requirements shall include but not be limited to—

(i) evidence that the contractor has processed at least 100,000 student aid records, or

(ii) evidence the contractor has processed at least 100,000 of the contractor's own undergraduate student financial aid forms in the academic year immediately preecding the year for which the contract is to be awarded.

In verifying the members of the contractor the Secretary shall make the determination from data provided by the central processors. No processors shall be denied eligibility to compete for a contract because the processor is not a State student financial aid agency or does not service at least two State financial aid agencies.

(3) The Secretary shall reimburse all approved contractors at a reasonable [predetermined rate] *negotiated rate* for processing such applications, for issuing eligibility reports, and for carrying out other services or requirements that may be prescribed by the Secretary. *No contractor may be reimbursed for the development costs of an alternative form.*

(4) All approved contractors shall be required to adhere to all editing, processing, and reporting requirements established by the Secretary of ensure consistency.

(5) Nothing in this section shall prohibit States, institutions of higher education, or private organizations from simultaneously collecting data elements, in addition to the data elements prescribed by the Secretary, as may be necessary to determine the eligibility of a student for financial aid funds not covered by this title.

(b) CERTIFICATION OF CAPABILITY.—Beginning with the 1988–1989 processing year, the Secretary shall be authorized to enter into agreements with institutions of higher education, States, or private organizations for the purpose of certifying the capability of their systems for determining expected family contributions under part F of this title.

(c) INFORMATION TO COMMITTEES OF CONGRESS.—Copies of all rules, regulations, guidelines, instructions, and application forms published or promulgated pursuant to this title shall be provided to the Committee on Labor and Human Resources of the Senate and the Committee on Education and Labor of the House of Representatives at least 45 days prior to their effective date.

(d) INFORMATION ON ELIGIBILITY FOR ASSISTANCE.—To help ensure access to postsecondary education by providing early notice to students of their potential eligibility for financial aid, the Secretary is authorized to enter into contracts with States, institutions of higher education, and private organizations for the purpose of—

(1) developing a common pre-eligibility Federal financial aid form,

(2) distributing and processing such form on a year-round basis free of charge to students, and

(3) issuing, on the basis of information reported by the student on such form, a pre-eligibility index designed to estimate the amount of Federal (and, if feasible, non-Federal) funds for which the student might qualify in later completing and submitting the application form called for under this section.

The Secretary shall widely disseminate the pre-eligibility form through post offices and other appropriate Federal installations, schools, postsecondary institutions, libraries, and community-based agencies, including projects assisted under subparts 4 and 5 of part A of this title.

(e) TOLL-FREE INFORMATION.—The Secretary shall contract for, or establish, and publicize a toll-free telephone number to provide timely and accurate information to the general public. The information provided shall include specific instructions on completing application forms for assistance under this title.

[(f) NOTICE OF STUDENT AID RECEIPT.—(1) The Secretary shall develop a single form on which the amount of assistance received under this title (except assistance received under subparts 4, 5, and 7 of part A) by each student who receives such assistance can be recorded. This form shall be titled "United States Department of Education, Federal Student Assistance Report." Such form shall have prominently displayed the Great Seal of the United States. Such form shall be the same or a closely similar color to that of checks issued by the Treasury Department and be provided by the Secretary free to eligible institutions in sufficient quantity and in a timely manner so that each eligible institution can provide a completed copy to each recipient of assistance under this title (except assistance received under subparts 4, 5, and 7 of part A) at the time awards are made but not less than once annually.

[(2) Eligible institutions shall provide to each recipient of assistance under this title (except assistance received under subparts 4, 5, and 7 of part A) a completed copy of the "United States Department of Education, Federal Student Assistance Report" form at the time awards are made but not less than once annually.]

(f) NOTICE OF FEDERAL STUDENT AID RECEIPT.—Each eligible institution shall provide to each recipient of assistance under this title (except assistance received under subparts 4, 5, and 7 of part A) a statement listing the estimated student assistance received by the recipient, and specifying the estimated amount and type of assistance awarded under this title and specifically indicating that such aid is federally supported assistance.

STUDENT ELIGIBILITY

SEC. 484. (a) IN GENERAL.—In order to receive any grant, loan, or work assistance under this title, a student must—

(1) be enrolled or accepted for enrollment in a degree, certificate, or other program leading to a recognized educational credential at an institution of higher education that is an eligible institution in accordance with the provisions of section 487, except as provided in subsections (b)(3) and (b)(4).

(2) if the student is presently enrolled at an institution, be maintaining satisfactory progress in the course of study the student is pursuing in accordance with the provisions of subsection (c);

(3) not owe a refund on grants previously received at any institution under this title, or be in default on any loan from a student loan fund at any institution provided for in part E, or

a loan made, insured, or guaranteed by the Secretary under this title for attendance at any institution;

(4) file with the institution of higher education which the student intends to attend, or is attending (or in the case of a loan or loan guarantee with the lender), a statement of educational purpose (which need not be notarized but which shall include such student's social security number or, if the student does not have a social security number, such student's student identification number) stating that the money attributable to such grant, loan, or loan guarantee will be used solely for expenses related to attendance or continued attendance at such institution; and

(5) be a citizen or national of the United States, a permanent resident of the United States, in the United States for other than a temporary purpose and able to provide evidence from the Immigration and Naturalization Service of his or her intent to become a permanent resident, or a permanent resident of the Trust Territory of the Pacific Islands, Guam, or the Northern Mariana Islands.

(b) ELIGIBILITY FOR STUDENT LOANS.—(1) In order to be eligible to receive any loan under this title (other than a loan under section 428B or 428C for any period of enrollment, a student who is not a graduate or professional student (as defined in regulations of the Secretary), and who is enrolled in a program at an institution which has a participation agreement with the Secretary to make awards under subpart 1 of part A of this title, shall—

(A)(i) have received a determination of eligibility or ineligibility for a Pell Grant under such subpart 1 for such period of enrollment; and (ii) if determined to be eligible, have filed an application for a Pell Grant for such enrollment period; or

(B) have (A) filed an application with the Pell Grant processor for such institution for such enrollment period, and (B) received from the financial aid administrator of the institution a preliminary determination of the student's eligibility or ineligibility for a grant under such subpart 1.

(2) In order to be eligible to receive any loan under section 428A for any period of enrollment, a student shall—

(A) have received a determination of need for a loan under section 428(a)(2)(B) of this title; and

(B) if determined to have need for a loan under section 428, have applied for such a loan.

[2] *(3)* A student who—

(A) is carrying at least one-half the normal full-time work load for the course of study that the student is pursuing, as determined by an eligible institution, and

(B) is enrolled in a course of study necessary for enrollment in a program leading to a degree or certificate, shall be, notwithstanding paragraph (1) of subsection (a), eligible to apply for loans under part B of this title. The eligibility described in this paragraph shall be restricted to one 12-month period.

(4) A student who—

(A) is carrying at least one-half the normal fulltime work load for the course of study the student is pursuing, as determined by the institution, and

(B) is enrolled or accepted for enrollment in a program at an eligible institution necessary for a professional credential or certification from a State that is required for employment as a teacher in an elementary or secondary school in that State,

shall be, notwithstanding paragraph (1) of subsection (a), eligible to apply for loans under part B of this title.

(5) In order to be eligible to receive any loan under this title, a student shall provide to the lender at the time of applying for the loan the driver's license number of the student borrower, if applicable, and the name and address of the next of kin of the student borrower.

(c) SATISFACTORY PROGRESS.—(1) For the purpose of subsection (a)(2), a student is maintaining satisfactory progress if—

(A) the institution at which the student is in attendance, reviews the progress of the student at the end of each academic year, or its equivalent, as determined by the institution, and

(B) the student has a cumulative C average, or its equivalent or academic standing consistent with the requirements for graduation, as determined by the institution, at the end of the second such academic year.

(2) Whenever a student fails to meet the eligibility requirements of subsection (a)(2) as a result of the application of this subsection and subsequent to that failure the student has academic standing consistent with the requirements for graduation, as determined by the institution, for any grading period, the student may, subject to this subsection, again be eligible under subsection (a)(2) for a grant, loan, or work assistance under this title.

(3) Any institution of higher education at which the student is in attendance may waive the provisions of paragraph (1) of paragraph (2) of this subsection for undue hardship based on—

(A) the death of a relative of the student,

(B) the personal injury or illness of the student, or

(C) special circumstances as determined by the institution.

(d) ABILITY TO BENEFIT.—A student who is admitted on the basis of the ability to benefit from the education or training in order to remain eligible for any grant, loan, or work assistance under this title shall—

(1) receive the general education diploma prior to the student's certification or graduation from the program of study, or by the end of the first year of the course of study, whichever is earlier;

(2) be counseled prior to admission and be enrolled in and successfully complete the institutionally prescribed program of remedial or developmental education not to exceed one academic year or its equivalent; or

(3)(A) be administered a nationally recognized, standardized, or industry developed test, subject to criteria developed by the appropriate accrediting association, measuring the applicant's aptitude to complete successfully the program to which the applicant has applied; and

(B) with respect to applicants who are unable to satisfy the institutions' admissions testing requirements specified in subparagraph (A), be enrolled in and successfully complete an institutionally prescribed program or course of remedial or devel-

opmental education not to exceed one academic year or its equivalent.

In order to be eligible for assistance a student cannot be enrolled in either an elementary or a secondary school. *No student who qualifies under paragraph (2)(A) or (2)(B) shall be eligible to receive a grant, loan, or work assistance under this Act, if that student is enrolled or accepted for enrollment in a course of study of less than 1 year in preparation for an occupation for which the student must be certified by an agency, other than the eligible institution or institution of higher education in order to begin practice or service, and a high school diploma or its recognized equivalent is a requirement for that certification.*

INSTITUTIONAL AND FINANCIAL ASSISTANCE INFORMATION FOR STUDENTS

SEC. 485. (a) INFORMATION DISSEMINATION ACTIVITIES.—(1) Each eligible institution participating in any program under this title shall carry out information dissemination activities for prospective and enrolled students (including those attending or planning to attend less than full time) regarding the institution and all financial assistance under this title. The information required by this section shall be produced and be made readily available, through appropriate publications and mailings, to all current students, and to any prospective student upon request. The information required by this section shall accurately describe—

(A) the student financial assistance programs available to students who enroll at such institution;

(B) the methods by which such assistance is distributed among student recipients who enroll at such institution;

(C) any means, including forms, by which application for student financial assistance is made and requirements for accurately preparing such application;

(D) the rights and responsibilities of students receiving financial assistance under this title;

(E) the cost of attending the institution, including (i) tuition and fees, (ii) books and supplies, (iii) estimates of typical student room and board costs or typical commuting costs, and (iv) any additional cost of the program in which the student is enrolled or expesses a specific interest;

(F) a statement of the refund policy of the institution for the return of unearned tuition and fees or other refundable portion of cost, as described in subparagraph (E) of this paragraph;

(G) the academic program of the institution, including (i) the current degree programs and other educational and training programs, (ii) the instructional, laboratory, and other physical plant facilities which relate to the academic program, and (iii) the faculty and other instructional personnel;

(H) each person designated under subsection (c) of this section, and the methods by which and locations in which any person so designated may be contacted by students and prospective students who are seeking information required by the subsection;

(I) special facilities and services available to handicapped students;

(J) the names of associations, agencies, or governmental bodies which accredit, approve, or license the institution and its programs, and the procedures under which any current or prospective student may obtain or review upon request a copy of the documents describing the institution's accreditation, approval, or licensing; and

(K) the standards which the student must maintain in order to be considered to be making satisfactory progress, pursuant to section 484(a)(2).

(2) For the purpose of this section, the term "prospective student" means any individual who has contacted an eligible institution requesting information concerning admission to that institution.

(b) EXIT COUNSELING FOR BORROWERS.—Each eligible institution shall, through financial aid officers or otherwise, make available counseling to borrowers (individually or in groups) of loans which are made, insured, or guaranteed under part B of this title (other than loans made pursuant to section 428B) of this title or made under part E of this title prior to the completion of the course of study for which the borrower enrolled at the institution or at the time of departure from such institution. The cousneling required by this subsection shall include—

(1) general information with respect to the average indebtedness of students who have loans under part B or part E; and

(2) the average anticipated monthly repayments, a review of the repayment options available, together with such debt and management strategies as the institution determines are designed to facilitate the repayment of such indebtedness. *Each eligible institution shall require that the borrower, at the completion of the course of study for which the borrower enrolled at the institution or at the time of departure from such institution, submit to the institution, the address of the borrower, the address of the next of kin of the borrower, and the drivers license number, if applicable, of the borrower during the interview required by this subsection.*

In the case of a borrower who leaves an institution without the prior knowledge of the institution, the institution shall attempt to provide the information to the student in writing.

(c) FINANCIAL ASSISTANCE INFORMATION PERSONNEL.—Each eligible institution shall designate an employee or group of employees who shall be available on a full-time basis to assist students or potential students in obtaining information as specified in subsection (a). The Secretary may, by regulation, waive the requirement that an employee or employees be available on a full-time basis for carrying out responsibilities required under this section whenever an institution in which the total enrollment, or the portion of the enrollment participating in programs under this title at that institution, is too small to necessitate such employee or employees being available on a full-time basis. No such waiver may include permission to exempt any such institution from designating a specific individual or a group of individuals to carry out the provisions of this section.

(d) DEPARTMENTAL PUBLICATION OF DESCRIPTIONS OF ASSISTANCE PROGRAMS.—The Secretary shall make available to eligible institutions, eligible lenders, and secondary schools descriptions of Federal student assistance programs including the rights and responsibilities of student and institutional participants, in order to (1) assist students in gaining information through institutional sources, and (2) assist institutions in carrying out the provisions of this seciton, so that individual and institutional participants will be fully aware of their rights and responsibilities under such programs. In particular, such information shall include information to enable students and prospective students to assess the debt burden and monthly and total repayment obligations that will be incurred as a result of receiving loans of varying amounts under this title. In addition, such information shall include information to enable borrowers to assess the practical consequences of loan consolidation, including differences in deferment eligibility, interest rates, monthly payments, and finance charges, and samples of loan consolidation profiles ot illustrate such consequences. Such information shall be provided by eligible institutions and eligible lenders at any time that information regarding loan availability is provided to any student.

(e) TOLL-FREE CONSUMER HOTLINE.—(1) In addition to the toll-free telephone information provided for in section 483, the Secretary shall contract for, or establish, and publicize a toll-free telephone number for use by the public, in order to permit students who allege fraud or unfair practices by eligible institutions to inform the Department of such fraud or unfair practices.

(2) The Secretary shall, directly or by way of contract or other arrangement, make the toll-free telephone number, and the availability of the consumer hotline established by this subsection, generally available to students receiving financial assistance under this title.

NATIONAL STUDENT LOAN DATA SYSTEM

SEC. 485B. (a) AUTHORITY OF THE SECRETARY.—In order to assure improved and accurate information on student loan indebtedness and institutional lending practices, and to insure improved compliance with the repayment and loan limitation provisions of this title, the Secretary [is authorized to] *shall* establish and carry out a nationwide computerized student loan data system containing information regarding loans made, insured, or guaranteed under part B and loans made under part E. The information in the data system shall include—

(1) the exact amount of such loans made;

(2) the names, social security numbers, and addresses of the borrowers (and in the case of dependent students the names and addresses of the parents of such students);

(3) the guaranty agency responsible for the guarantee of the loan in the case of loans made, insured, or guaranteed under part B; and

(4) the institution of higher education or organization responsible for loans made under part E.

The information to be stored in the student loan data system established by this subsection shall be furnished by guaranty agencies for loans made, insured, or guaranteed under part B and by institu-

tions of higher education for loans made under part E. *The Secretary shall assure that the computerized student loan data system required by this subsection is operational not later than October 1, 1989.*

(b) ACCESS TO INFORMATION.—(1) Subject to the provisions of paragraphs (2) and (3), and notwithstanding the provisions of section 552(a) of title 5, United States Code, relating to freedom of information, access to information in the data system established and maintained pursuant to subsection (a) of this section shall be restricted to individuals and public agencies, specifically authorized by the Secretary to have such access.

(2) In carrying out this subsection, the Secretary shall approve access to information for—

(A) research on student loan practices, student and parental indebtedness, repayment and debt collection trends, Federal costs associated with the guaranteed student loan program under part B of this title, including the cost of interest subsidies and special allowance payments;

(B) the improvement of Federal debt collection practices and Federal criminal prosecutions under this title, relating to loans made, insured, or guaranteed under part B or loans under part E of this title;

(C) furnishing information in response to an official request made by any committee of the Congress; and

(D) any guaranty agency under part B, except that such access shall be limited to the name, social security number, and the amount of indebtedness, including the amount borrowed each year, of any borrower.

(3) No name, address, or social security number of any individual borrower may be made available to any requesting individual, public agency, or organization, unless the Secretary determines that the request is connected with the enforcement or debt collection responsibilities imposed by Federal law on such individual, agency, or organization.

(4) In carrying out this subsection, the Secretary shall require semiannual reports (continuing the information set forth in subsection (a) (1) and (2)) from each guaranty agency responsible for the guarantee of loans made, insured, or guaranteed under part B and any institution of higher education or proprietary institution responsible for a loan made under part E.

(c) IMPROVED INFORMATION.—(1) Each guaranty agency shall furnish the Department of Education with information on the amount of each loan made, insured, or guaranteed under this part for which the agency provides a guarantee and other relevant data with respect to such loan. The information furnished under this paragraph shall be used in the National Student Loan Data System established under this section.

(2) Each guaranty agency shall expand and standardize the confirmation reports required to be submitted on the date of enactment of the Stafford Student Loan Default Prevention and Management Act of 1988 in order to assure that such information is provided at least quarterly on student loan delinquencies, defaults, and the change in the status of a borrower whose loan is delinquent or in default.

(3) Each guaranty agency shall provide the Secretary with complete and accurate data on a quarterly basis in order to facilitate the usefulness of the National Student Loan Data System under this section.

[(c)] *(d)* VERIFICATION NOT REQUIRED.—The Secretary shall not require lenders, guaranty agencies, or institutions of higher education to verify information or obtain eligibility or other information through the National Student Loan Data System prior to making, guaranteeing, or certifying a loan under part B or part E.

[d] *(e)* REPORT TO CONGRESS.—The Secretary shall prepare and submit to the Congress twice in each fiscal year a report describing the results obtained by the establishment and operation of the student loan data system authorized by this section.

SEC. 487. (a) REQUIRED FOR PROGRAMS OF ASSISTANCE; CONTENTS.—In order to be an eligible institution for the purposes of any program authorized under this title, an institution must be an institution of higher education or an eligible institution (as that term is defined for the purpose of that program) and shall, except with respect to a program under subpart 3 of part A, enter into a program participation agreement with the Secretary. The agreement shall condition the initial and continuing eligibility of an institution to participate in a program upon compliance with the following requirements:

(1) The institution will use funds received by it for any program under this title and any interest or other earnings thereon solely for the purpose specified in and in accordance with the provision of that program.

(2) The institution shall not charge any student a fee for processing or handling any application, form, or data required to determine the student's eligibility for assistance under this title or the amount of such assistance, or for completing or handling the Federal Student Assistance Report provided for in section 483(e).

(3) The institution will establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary or from students under this title.

(4) The institution will comply with the provisions of subsection (b) of this section and the regulations prescribed under that subsection, relating to fiscal eligibility.

(5) The institution will submit reports to the Secretary and, in the case of an institution participating in a program under part B or part E, to holders of loans made to the institution's students under such parts at such times and containing such information as the Secretary may reasonably require to carry out the purpose of this title.

(6) The institution will not provide any student with any statement or certification to any lender under part B that qualifies the student for a loan or loans in excess of the amount that student is eligible to borrow in accordance with section 425(a), 428(a)(2), and 428(b)(1)(A) and (B).

(7) The institution will comply with the requirements of section 485.

(8) In the case of an institution that advertises job placement rates as a means of attracting students to enroll in the institution, the institution will make available to prospective students, at or before the time of application, (*A*) the most recent available data concerning employment statistics, graduation statistics, and any other information necessary to substantiate the truthfulness of the advertisements *and (B) relevant State licensing requirements for any job for which the course of instruction is designed for such prospective students.*

(9) In the case of an institution participating in a program under part B, the institution will inform all eligible borrowers enrolled in the institution about the availability and eligibility of such borrowers for State grant assistance from the State in which the institution is located, and will inform such borrowers from another State of the source for further information concerning such assistance from that State.

(10) The institution certifies that it has in operation a drug abuse prevention program that is determined by the institution to be accessible to any officer, employee, or student at the institution.

(11) The institution will withhold the academic transcripts of any student borrower who is in default on any loan made under this title unless the institution determines that withholding such transcripts will prevent the borrower from obtaining employment and repaying the loan.

(12) The institution does not—

(A) use any contractor or any person other than a salaried employee of the institution or a volunteer to conduct any activities related to recruiting or admitting students; or

(B) pay any commission, bonus, or other incentive payment to any person engaged in any activity related to recruiting or admitting students.

(13) The institution will use the same definition of "academic year" for all programs authorized by this title.

(b) HEARINGS.—(1) An institution that has received written notice of a final audit or program review determination and that desires to have such determination reviewed by the Secretary shall submit to the Secretary a written request for review not later than 45 days after receipt of notification of the final audit or program review determination.

(2) The Secretary shall, upon receipt of written notice under paragraph (1), arrange for a hearing on the record and notify the institution within 30 days of receipt of such notice the date, time, and place of such hearing. Such hearing shall take place not later than 120 days from the date upon which the Secretary notifies the institution.

(c) AUDITS; FINANCIAL RESPONSIBILITY; ENFORCEMENT OF STANDARDS.—(1) Notwithstanding any other provisions of this title, the Secretary is authorized to prescribe such regulations as may be necessary to provide for—

(A)(i) except as provided in clause (ii), a financial and compliance audit of an eligible institution, with regard to any funds obtained by it under this title or obtained from a student or a parent who has a loan insured or guaranteed by the Secretary

under this title, at least once every 2 years and covering the period since the most recent audit, conducted by a qualified, independent organization or person in accordance with standards established by the Comptroller General for the audit of governmental organizations, programs, and functions, and as prescribed in regulations of the Secretary, the results of which shall be submitted to the Secretary; or

(ii) with regard to an eligible institution which is audited under chapter 75 of title 31, United States Code, deeming such audit to satisfy the requirements of clause (i) for the period covered by such audit;

(B) in matters not governed by specific program provisions, the establishment of reasonable standards of financial responsibility and appropriate institutional capability for the administration by an eligible institution of a program of student financial aid under this title;

(C) the establishment, by each eligible institution under part B responsible for furnishing to the lender the statement required by section 428(a)(2)(A)(i), of policies and procedures by which the latest known address and enrollment status of any student who has had a loan insured under this part and who has either formally terminated his enrollment, or failed to reenroll on at least a half-time basis, at such institution, shall be furnished either to the holder (or if unknown, the insurer) of the note, not later than 60 days after such termination or failure to re-enroll; [and]

(D) the limitation, suspension, or termination of the eligibility for any program under this title of any otherwise eligible institution, or the imposition of a civil penalty under paragraph (2)(B) whenever the Secretary has determined, after reasonable notice and opportunity for hearing on the record, that such institution has violated or failed to carry out any provision of this title or any regulation prescribed under this title, except that no period of suspension under this section shall exceed 60 days unless the institution and the Secretary agree to an extension or unless limitation or termination proceedings are initiated by the Secretary within that period of time[.]; *and*

(E) the limitation, suspension, or termination of the eligibility of an otherwise eligible institution, or the imposition of a civil penalty under paragraph (2)(B), whenever the Secretary determines, after reasonable notice and opportunity for a hearing on the record, that an individual or organization having a contract with such institution to administer any aspect of the institution's student assistance program under this title, has violated or failed to carry out any provision of this title, any regulation prescribed under this title, or any applicable special arrangement, agreement, or limitation and that the eligible institution failed to terminate the contract, except that no period of suspension under this subparagraph shall exceed 60 days unless the institution and the Secretary agree to an extension, or unless limitation or termination proceedings are initiated by the Secretary within that period of time.

(2)(A) Upon determination, after reasonable notice and opportunity for a hearing on the record, that an eligible institution has engaged in substantial misrepresentation of the nature of its educational program, its financial charges, or the employability of its graduates, the Secretary may suspend or terminate the eligibility status for any or all programs under this title of any otherwise eligible institution, in accordance with procedures specified in paragraph (1)(D) of this subsection, until the Secretary finds that such practices have been corrected.

(B)(i) Upon determination, after reasonable notice and opportunity for a hearing on the record, that an eligible institution—

(I) has violated or failed to carry out any provision of this title or any regulation prescribed under this title; or

(II) has engaged in substantial misrepresentation of the nature of its educational program, its financial charges, and the employability of its graduates,

the Secretary may impose a civil penalty upon such institution of not to exceed $25,000 for each violation or misrepresentation. *In addition, the Secretary may require such eligible institutions to make refunds in accordance with division (iii).*

(ii) Any civil penalty may be compromised by the Secretary. In determining the amount of such penalty, or the amount agreed upon in compromise, the appropriateness of the penalty to the size of the institution of higher education, education subject to the determination and the gravity of the violation, failure, or misrepresentation shall be considered. The amount of such penalty, when finally determined, or the amount agreed upon in compromise, may be deducted from any sums owing by the United States to the institution charged.

(iii) When the Secretary determines there has been a violation, failure, or misrepresentation pursuant to division (i), the Secretary may require the institution to refund the student's tuition and fees. The Secretary shall establish procedures for refunding the tuition and fees. Such procedures shall—

(I) first require the payment by the institutiuon to the United States Government of any portion of the tuition and fees paid with Federal funds received under this title (other than funds subpart 3 of part A and part B of this title); and

(II) then require payment by the institution to the lender of that portion of the tuition and fees attributable to a loan made, issued, or guaranteed under part B of this title.

(3) The Secretary is authorized to carry out the provisions of paragraph (1)(D), relating to limitation, suspension, or termination of an eligible institution whenever the institution withdraws from a nationally recognized accrediting agency or association during a show cause or suspension proceeding brought against that institution.

(4)(A) Whenever a nationally recognized accrediting agency or association reports pursuant to subparagraph (B) that an eligible institution was denied institutional accreditation, the Secretary is authorized to carry out the provisions of paragraph (1)(D) relating to limitation, suspension, or termination of an eligible institution.

(B) The Secretary is authorized to enter into such arrangements with accrediting agencies and associations as may be necessary to

assure notice of the denial of institutional accreditation in order to carry out subparagraph (A).

[(3)] *(5)* The Secretary shall publish a list of State agencies which the Secretary determines to be reliable authority as to the quality of public postsecondary vocational education in their respective States for the purpose of determining eligibility for all Federal student assistance programs.

(d) DEFINITION OF ELIGIBLE INSTITUTION.—For the purpose of this section, the term "eligible institution" means any such institution described in section 435(a) of this Act.

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TITLE IX—GRADUATE PROGRAMS

PART B—PATRICIA ROBERTS HARRIS FELLOWSHIPS

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SPECIAL GRANTS TO CONSORTIA FOR THE BENEFIT OF HISTORICALLY BLACK COLLEGES

SEC. 924. (a) GRANTS AUTHORIZED.—The Secretary may make grants to consortia of institutions of higher education which include historically Black colleges to pay the Federal share of the costs of programs designed to enable such institutions to provide supplemental need based financical aid to students and faculty from historically Black colleges who are pursuing doctoral studies.

(b) PROGRAM REQUIREMENTS.—(1) The provisions of this part, unless otherwise inconsistent with the provisions of this section shall apply to grants made under this section.

(2) The Federal share for each fiscal year shall be 66⅔ percent.

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PART G—AUTHORIZATION OF APPROPRIATIONS

AMOUNT AND DURATION OF AUTHORIZATION

SEC. 971. (a) PART A.—There are authorized to be appropriated to carry out part A of this title $10,000,000 for fiscal year 1987, and such sums as may be necessary for the 4 succeeding fiscal years.

(b) PART B.—*(1)*—There are authorized to be appropriated to carry out part B *(other than section 924)* of this title $30,000,000 for fiscal year 1987, and such sums as may be necessary for the 4 succeeding fiscal years.

(2) There are authorized to be appropriated to carry out section 924 of part B such sums as may be necessary for the fiscal year 1989 and for the 2 succeeding fiscal years.

(c) PART C.—There are authorized to be appropriated to carry out part C of this title $10,000,000 for fiscal year 1987, and such sums as may be necessary for the 4 succeeding fiscal years.

(d) PART D.—There are authorized to be appropriated to carry out part D of this title $30,000,000 for fiscal year 1987, and such sums as may be necessary for the 4 succeeding fiscal years.

(e) PART E.—There are authorized to be appropriated to carry out part E of this title $5,000,000 for fiscal year 1987, and such sums as may be necessary for the 4 succeeding fiscal years.

(f) PART F.—There are authorized to be appropriated to carry out part F of this title $5,000,000 for fiscal year 1987, and such sums as may be necessary for the 4 succeeding fiscal years.

(g) LIMITATION ON APPROPRIATIONS FOR PARTS A AND D.—No funds are authorized to be appropriated for part A or D of this title for any fiscal year unless the appropriation for the preceding fiscal year—

(1) for part B equals or exceeds $18,000,000; and

(2) for part C equals or exceeds $5,000,000.

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PUBLIC LAW 100-297—APR. 28, 1988

PART D—GENERAL EDUCATION PROVISIONS ACT

SEC. 3501. ENFORCEMENT UNDER THE GENERAL EDUCATION PROVISIONS ACT.

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"SEC. 160. DEFINITIONS.

"For purposes of this part:

"(1) The term 'recipient' means a recipient of a grant or cooperative agreement under an applicable program.

"(2) The term 'applicable program' excludes [programs authorized by the Higher Education Act of 1965 and] assistance programs provided under the Act of September 30, 1950 (Public Law 874, 81st Congress), and the Act of September 23, 1950 (Public Law 815, 81st Congress)."

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